



**Shandong Xinhua Pharmaceutical Company Limited**

(H Share Stock Code: 0719)  
(A Share Stock Code: 000756)

**Interim Report 2009**





Chapter	Content	Page
I.	Company Information .....	2
II.	Summary of Financial and Operating Results .....	3
III.	Changes in Share Capital and Shareholders .....	6
IV.	Directors, Supervisors and Senior Officers .....	10
V.	Chairman's Statement .....	12
VI.	Management Discussion and Analysis .....	14
VII.	Review of Major Events .....	17
VIII.	Corporate Governance .....	20
IX.	Financial Report (Prepared under PRC Accounting Standards).....	21
X.	Financial Report (Prepared under Hong Kong Generally Accepted Accounting Principles) .....	79
XI.	Documents for Inspection and Place for Inspection.....	92

**Important:**

The board of directors ("Board") and the directors ("Directors") of Shandong Xinhua Pharmaceutical Company Limited ("Company") hereby confirm that there are no false representations, material omissions or misleading statements contained in this interim report ("Report") and they, jointly and severally, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this Report. The financial report of the Company and its subsidiaries (collectively referred to as "Group") for the six months ended 30 June 2009 has not been audited.

The chairman (Ms. Guo Qin), financial controller (Mr. Zhao Songguo) and the chief of financial department (Mr. Wang Jianxin) of the Company hereby pledge that the financial report of the Company for the six months ended 30 June 2009 is true and complete.

This Report has been prepared in both Chinese and English. In the event of any discrepancy between two versions, the Chinese version shall prevail.



## COMPANY INFORMATION

Chinese Name of the Company	:	山東新華製藥股份有限公司
English Name of the Company	:	SHANDONG XINHUA PHARMACEUTICAL COMPANY LIMITED (the “Company”)
Legal Representative	:	Ms. Guo Qin
Company Secretaries	:	Mr. Cao Changqiu, Ms. Guo Lei
Telephone Number	:	86-533-2196024
Facsimile Number	:	86-533-2287508
E-mail Address of Company Secretaries	:	cqcao@xhzy.com, guolei@xhzy.com
Registered Address and Office Address	:	Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province, the People’s Republic of China (the “PRC”)
Postal Code	:	255005
Website of the Company	:	<a href="http://www.xhzy.com">http://www.xhzy.com</a>
E-mail Address of the Company	:	<a href="mailto:xhzy@xhzy.com">xhzy@xhzy.com</a>
PRC newspaper for information disclosure	:	Securities Times
Website designated by the China Securities Regulatory Commission (the “CSRC”)	:	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Listing Information		
H Shares		
Stock Exchange	:	The Stock Exchange of Hong Kong Limited (the “SEHK”)
Abbreviated Name	:	Shandong Xinhua
Stock Code	:	0719
A Shares		
Stock Exchange	:	Shenzhen Stock Exchange (the “SZSE”)
Abbreviated Name	:	Xinhua Pharm
Stock Code	:	000756



## 1. FINANCIAL SUMMARY PREPARED IN CONFORMITY WITH PRC ACCOUNTING STANDARDS (RMB)

Item	As at	As at 31	Change as compared to the end of last year (%)
	30 June 2009 (Unaudited)	December 2008 (Audited)	
Total assets	2,404,611,700.26	2,161,734,318.69	11.24
Total equity attributable to holders of Company	1,554,426,471.55	1,453,252,991.36	6.96
Capital	457,312,830.00	457,312,830.00	0.00
Net assets per share attributable to holders of Company	3.40	3.18	6.92
	Six months ended	Six months ended	Change as compared to the last year (%)
	30 June 2009 (Unaudited)	30 June 2008 (Unaudited)	
Total operating income	1,196,792,146.64	1,140,652,669.14	4.92
Operating profit	58,040,612.50	31,529,067.36	84.09
Profit before taxation	50,683,526.89	30,568,418.68	65.80
Profit attributable to the equity shareholders of Company	39,887,094.33	20,457,174.27	94.98
Profit attributable to the equity shareholders of Company after extraordinary items (Note)	38,401,542.24	19,385,916.65	98.09
Basic earnings per share	0.09	0.04	125.00
Diluted earnings per share	0.09	0.04	125.00
Return on equity (%)	2.57	1.37	Increase 1.20 points
Net cash flow from operating activities	121,733,607.26	43,980,363.32	176.79
Net cash flow from operating activities per share	0.27	0.10	170.00

Note:

Extraordinary items include:

Item	Amount (RMB)
Profit or loss from disposal of non-current assets	(4,897,870.59)
Government subsidies recognized in current profit and loss, (excluding those closely related to the Company's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume)	482,610.20
Gains/losses from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	9,148,250.38
Other non-operating income or cost except the above items	(2,941,825.22)
Minority interests	(52,710.97)
Income tax	(252,901.71)
<b>Total</b>	<b>1,485,552.09</b>



## SUMMARY OF FINANCIAL AND OPERATING RESULTS

Unit: RMB

### Items by fair value

Items	Amount as at 1 January 2009	Change of fair value	Total change of fair value	Provision impairment	Amount as at 30 June 2009
Financial assets:					
Include: 1. Financial assets by fair value and its change is included into profit and loss	0.00	—	—	—	—
Include: Derivative financial assets	—	—	—	—	—
2. Available-for-sale financial assets	94,766,950.00	—	157,724,443.80	—	183,182,216.80
Total of financial assets	94,766,950.00	—	157,724,443.80	—	183,182,216.80
Financial liabilities	7,591,083.73	6,898,720.38	—	—	692,363.35
Investment property	—	—	—	—	—
Biological assets	—	—	—	—	—
Others	—	—	—	—	—
<b>Total</b>	<b>102,358,033.73</b>	<b>6,898,720.38</b>	<b>157,724,443.80</b>	<b>—</b>	<b>183,874,580.15</b>

## 2. FINANCIAL SUMMARY PREPARED IN CONFORMITY WITH HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (HKGAAP) (RMB'000)

### Consolidated Income Statement

Item	Six months ended 30 June 2009 (Unaudited)	Six months ended 30 June 2008 (Unaudited)
Turnover	1,179,184	1,151,004
Profit before taxation	49,776	25,881
Income tax expense	(8,701)	(7,995)
Profit for the period	41,075	17,886
Includes:		
Profit attributable to owners of the parent	39,115	16,471
Minority interests	1,960	1,415

### Consolidated Statement of Financial Position

Item	As at 30 June 2009 (Unaudited)	As at 31 December 2008 (Audited)
Total assets	2,401,308	2,159,424
Total liabilities	(800,534)	(659,144)
Minority interests	(33,707)	(33,746)
Net assets	1,567,067	1,466,534



### 3. RECONCILIATIONS OF ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND HKGAAP (RMB) (UNAUDITED)

Item	Profit attributable to the equity shareholders of Company		Total equity attributable to holders of Company	
	2009.1-6	2008.1-6	As at 30 June 2009	As at 1 January 2009
Prepared under HKGAAP	39,115,094.33	16,471,174.27	1,567,067,471.55	1,466,533,991.36
Prepared under PRC accounting standards	39,887,094.33	20,457,174.27	1,554,426,471.55	1,453,252,991.36
HKGAAP adjustments:				
Deferred taxation	136,000.00	702,000.00	(2,208,000.00)	(2,344,000.00)
Depreciation charges due to revaluation in previous years	(204,000.00)	(204,000.00)	(20,072,000.00)	(19,868,000.00)
Provision for education fund	(704,000.00)	509,000.00	13,489,000.00	14,193,000.00
Provision for welfare expenses	—	(4,993,000.00)	—	—
Surplus from revaluation for listing of H Shares	—	—	21,300,000.00	21,300,000.00
Others	—	—	132,000.00	—
Total of the difference between the PRC accounting standards and HKGAAP	<u>(772,000.00)</u>	<u>(3,986,000.00)</u>	<u>12,641,000.00</u>	<u>13,281,000.00</u>

Explanation on the difference between the PRC accounting standards and HKGAAP:

- In preparation for the listing of Company's shares on the SEHK, the Company's property, plant and equipment were valued by Shandong CPA Firm (山東會計師事務所), a registered PRC valuer, based on depreciated replacement cost. Subsequently, such property, plant and equipment were revalued by Chesterton Petty Ltd., an independent valuer, as per the public market value, with the revaluation appreciation of RMB21,300,000. Due to the said difference, there was an increase in depreciation expenses of RMB20,072,000 as at 30 June 2009, of which RMB204,000 was attributable to the period from 1 January 2009 to 30 June 2009;
- Education fees are set out as per the actual circumstances, without the need of provision under HKGAAP. As at 30 June 2009, provision made for the balance of education fees under the PRC accounting standards was RMB13,489,000 with a decrease in education fees of RMB704,000 for this period;
- The aforesaid differences also led to the difference in the Company's deferred income tax. The difference in accumulated deferred income tax is RMB2,208,000 and the deferred income tax of the current period of RMB136,000;
- Other difference of RMB132,000 was employee award extracted by a subsidiary of the Company, of which provisions are not required to be made under HKGAAP.



## CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### 1. Share Capital structure

Unite: Share

		30 Jun 2009		1 Jan 2009	
Class of shares	Number of shares (Share)	% of the total share capital	Class of shares	Number of shares (Share)	% of the total share capital
1. Total number of conditional tradable shares	187,808,632	41.07%	1. Total number of conditional tradable shares	187,809,202	41.07%
Stated-owned shares	163,258,735	35.70%	Stated-owned shares	163,258,735	35.70%
Domestic legal person shares	0	0.00%	Domestic legal person shares	0	0.00%
Conditional tradable senior management A Shares	22,297	0.01%	Conditional tradable senior management A Shares	22,867	0.01%
Others	24,527,600	5.36%	Others	24,527,600	5.36%
2. Total number of unconditional tradable shares	269,504,198	58.93%	2. Total number of unconditional tradable shares	269,503,628	58.93%
Renminbi ordinary shares (A Shares)	119,504,198	26.13%	Renminbi ordinary shares (A Shares)	119,503,628	26.13%
Overseas listed foreign shares (H shares)	150,000,000	32.80%	Overseas listed foreign shares (H Shares)	150,000,000	32.80%
3. Total number of shares	457,312,830	100.00%	3. Total number of shares	457,312,830	100.00%



Tradable Schedule of Conditional Listed Tradable Shares is as follows:

Name of shareholders	Number of shares subject to conditions of trading as at 1 January 2009	Number of unconditional tradable shares in the first half of 2009	Increase in shares subject to conditions of trading	Number of shares subject to conditions of trading as at 30 June 2009	Conditions	Date of plan removing the conditions
Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC")	163,258,735	0	0	163,258,735	Special undertaking	6 June 2009
Qingdao Haowei Investment Development Company Limited	15,000,000	0	0	15,000,000	Compliance with the special undertaking of SXPGC	6 June 2009
Zibo High-Tech Venture Capital Company Limited	7,632,600	0	0	7,632,600	Compliance with the special undertaking of SXPGC	6 June 2009
Huludao Bajiazi Mining Industry Company Limited	1,550,000	0	0	1,550,000	Compliance with the special undertaking of SXPGC	6 June 2009
Shangrao Daihu Industrial Company Limited	345,000	0	0	345,000	Compliance with the special undertaking of SXPGC	6 June 2009

*Note 1: SXPGC has undertaken that between the 36th month and 48th month since the listing of the non-tradable shares of the Company (6 June 2006), the shares to be sold through the SZSE shall not exceed 5% of the total share capital of the Company, and it shall not sell any of its shares of the Company on the SZSE at a price less than RMB4.8 per share, (such price will be on an ex-rights basis if there is any declaration of dividends, bonus issues or capitalisation of capital reserve during the period between the day of implementation of the revised share reform of the Company and sale of the shares by SXPGC) being 150% of the average closing price of the listed A Shares as quoted on the SZSE in the thirty (30) trading days prior to the issuance date of the relevant notice of the shareholders' meeting. Should SXPGC breach any of the provisions of this undertaking in the sale of its shares, the proceeds resulting from such sale shall be owned by the Company.*

*Note 2: As there are disputes between SXPGC and other shareholders who held conditional tradable shares of the Company in relation to the conditional shares it holds, the second trial in the Shandong Provincial Higher People's Court is in progress, the Company will proceed to go through the procedures in relation to the release of trading restrictions on the restricted shares upon the delivery of the formal judgment of the court.*

- As at 30 June 2009, the Company had on record a total of 44,858 shareholders, including 57 holders of H Shares and 44,801 holders of A Shares.





## CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3. As at 30 June 2009, the ten largest shareholders of the Company were as follows:

Name of Shareholder	Types of shareholders	Number of shares held (Share)	% of the total share capital	Number of conditional tradable shares held (Share)	Number of shares being charged or frozen (Share)
SXPGC	State-owned shareholder	163,258,735	35.70	163,258,735	28,064,414
HKSCC (Nominees) Limited	H shares shareholder	148,749,998	32.53	—	—
Qingdao Haowei Investment Development Company Limited	Others	15,000,000	3.28	15,000,000	13,114,414
Zibo High-Tech Venture Capital Company Limited	Others	7,632,600	1.67	7,632,600	948,689
Huludao Bajiazi Mining Industry Company Limited	Others	1,550,000	0.34	1,550,000	—
Jiao Xiaohui	Domestic person	669,500	0.15	—	—
Liu Shida	Domestic person	560,000	0.12	—	—
Chen Linhai	Domestic person	514,300	0.11	—	—
Shandong Dacheng Pesticide Company Limited	Domestic legal person	500,000	0.11	—	—
Yin Zhong	Domestic person	445,000	0.10	—	—



4. As at 30 June 2009, the ten largest shareholders of the unconditional tradable shares of the Company were as follows:

Name of Shareholder	Number of unconditional listed shares (Share)	Class of shares
HKSCC (Nominees) Limited	148,749,998	H Shares
Jiao Xiaohui	669,500	A Shares
Liu Shida	560,000	A Shares
Chen Linhai	514,300	A Shares
Shandong Dacheng Pesticide Company Limited	500,000	A Shares
Yin Zhong	445,000	A Shares
Ren Junqiu	371,055	A Shares
HSIA SIU KUN	362,000	H Shares
Zeng Lihui	360,000	A Shares
Zhou Hongbo	348,086	A Shares

*Note:*

1. *The Directors are not aware as to whether there is any association amongst the ten largest shareholders of the Company, nor the persons acting in concert as defined in the “Rules for the information Disclosure of Changes in the Shareholding of Listed Companies” issued by the CSRC. In addition, the Directors do not know whether there is any association amongst the shareholders of H Shares of the Company or persons acting in concert as referred to above.*

*The Directors do not know whether there is any association amongst the ten largest shareholders of unconditional tradable shares of the Company, any association between the ten largest shareholders of the Company and the ten largest shareholders of the Company or the persons acting in concert as defined in the “Rules for the information Disclosure of Changes in the Shareholding of Listed Companies” issued by the CSRC.*

2. *The only domestic shareholder with more than 5% of the total issued shares of the Company is SXPGC.*
3. *There was no change of controlling shareholder of the Company during this reporting period.*
4. *Save as disclosed above and so far as the Directors are aware, as at 30 June 2009, no other person (other than the Directors, supervisors of the Company (the “Supervisors”), chief executives or members of senior management of the Company) had an interest or short position in the Company’s shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (“SFO”) and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”)) of the Company.*



## DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

As at 30 June 2009, the number of shares held by the Directors, Supervisors and senior officers of the Company (“Senior Officers”) were as follows:

<b>Name</b>	<b>Position</b>	<b>As at 1 January 2009 Number of Shares</b>	<b>Change Number of Shares</b>	<b>As at 30 June 2009 Number of Shares</b>
<b>Directors:</b>				
Ms. Guo Qin	Chairman	12,639	Nil	<b>12,639</b>
Mr. Liu Zhenwen	Non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Ren Fulong	Executive Director, General Manager	Nil	Nil	<b>Nil</b>
Mr. Zhao Songguo	Executive Director, Deputy General Manager & Financial Controller	Nil	Nil	<b>Nil</b>
Mr. Li Tianzhong	Non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Zhao Bin	Non-executive Director (appointed on 8 June 2009)	Nil	Nil	<b>Nil</b>
Mr. Zhu Baoquan	Independent non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Xu Guojun	Independent non-executive Director (resigned on 30 April 2009)	Nil	Nil	<b>Nil</b>
Mr. Sun Minggao	Independent non-executive Director	Nil	Nil	<b>Nil</b>
Mr. Kwong Chi Kit, Victor	Independent non-executive Director	Nil	Nil	<b>Nil</b>
<b>Supervisors:</b>				
Mr. Yu Gongfu	Chairman of Supervisory Committee	6,075	Nil	<b>6,075</b>
Mr. Gao Qinggang	Supervisor	4,370	Nil	<b>4,370</b>
Mr. Liu Qiang	Supervisor	4,370	Nil	<b>4,370</b>
Mr. Zhang Yueshun	Independent Supervisor	Nil	Nil	<b>Nil</b>
Mr. Tao Zhichao	Independent Supervisor	Nil	Nil	<b>Nil</b>
<b>Senior Officers:</b>				
Mr. Zhang Daiming	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. Dou Xuejie	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. Du Deqing	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. Du Deping	Deputy General Manager	Nil	Nil	<b>Nil</b>
Mr. Cao Changqiu	Company Secretary	2,278	Nil	<b>2,278</b>
Ms. Guo Lei	Company Secretary	Nil	Nil	<b>Nil</b>
<b>Total</b>		<b>29,732</b>	<b>Nil</b>	<b>29,732</b>

All shares held by the Directors, Supervisors and Senior Officers are A Shares.



So far as the Directors, Senior Officers and Supervisors are aware, save as disclosed above, as at 30 June 2009, no Director, Senior Officer or Supervisor of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short position which any such Director, Senior Officer or Supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

### **CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS**

Mr. Xu Guojun resigned as an independent non-executive director of the Company with effect from 30 April 2009 due to change of job.

Mr. Zhao Bin was appointed as a non-executive director of the Company in the annual general meeting held on 8 June 2009.



Dear shareholders,

I am pleased to report the operating results of Shandong Xinhua Pharmaceutical Company Limited (the “**Company**”) for the six months ended 30 June 2009.

For the six months ended 30 June 2009, pursuant to the PRC accounting standards, the operating income of the Company and its subsidiaries (collectively referred to as “**the Group**”) was RMB1,196,792,000 and profit attributable to the equity shareholders of the parent company was RMB39,887,000, representing an increase of 4.92% and an increase of 94.98% respectively, as compared to that of the same period last year.

The Group had a turnover of RMB1,179,184,000 and the profit attributable to shareholders was RMB39,115,000 for the six months ended 30 June 2009 under HKGAAP, representing an increase of 2.45% and an increase of 137.48% respectively, as compared with that of the same period last year.

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2009.

### **BUSINESS REVIEW**

As the global financial crisis deepened in the first half of 2009, pharmaceutical enterprises were caught in a deteriorating operational environment and the exports of pharmaceutical products decreased. The price of water, electricity and gas were persistently high and there was constant pressure for environmental protection. Further, prices of certain pharmaceutical products in the domestic pharmaceutical market fell. These factors were all unfavorable to the Company's production and operations.

The Group has taken practical steps to expand its market, and restructure and consolidate to carry out development. It strived to improve technology and reduce costs. It carried out the construction projects smoothly through scientific planning and good organization. During the first half of 2009, the Group has achieved all targets set at the beginning of the year, especially the higher profit growth. Below is the business review of the Group for the first half of 2009:

#### **1. Expanding market, re-structuring business and consolidating development bases**

In the light of the decreasing export of medical products, the senior management of the Company took initiatives to visit customers, enhance understanding and communication, and consolidating strategic partnerships, which effectively curbed a further downturn in export. During the first half of 2009, the Group's exports recorded a revenue of USD68,701,000. Although the revenue decreased by 11% over the same period last year, it was already above the average revenue in the PRC.

Based on the principle of “To be an expert in pharmaceutical raw materials and a leading producer of pharmaceutical products”, the Group used its best endeavour to market preparations, and adjusted product mixes, resulting in an increase of 20.06% in the sales of preparations over the same period last year, of which the sales of processed preparations to Bayer Germany has had a growth of over 400%. The sales of preparations accounted for 29.92% of all industrial products of the Company, as compared to 24.93% for the same period last year. The benefit felt by the adjustment of product mixes is prominent.



## 2. Striving for improvement by technology renovation and costs reductions

Through the implementation of the program “The year of breakthroughs in technology and quality”, we saved RMB2,066,000 by reducing raw material consumption and made technology breakthroughs in 11 projects, representing 50% of our annual target in the first half of 2009. By reducing energy consumption through strengthening energy saving measures and discharge reduction, the Company saved RMB9,870,000 in the first half of 2009.

We implemented our procurement system of “Quality and Price Comparison”, put emphasis on analysis and research, and made decisions in a scientific and rational manner. By doing so, we managed to lower our raw material procurement cost significantly during the first half of the year, as compared to that of the same period last year.

We were fully and well-prepared for inspections in relation to nine pharmaceutical raw materials production lines and three solid preparations production lines. We have successfully passed the GMP authentication and licence review inspection by the State Food and Drugs Administration of the PRC. Our controlling subsidiaries, Zibo Xinhua Pharmacy Chain Company Limited and Shandong Xinhua Medical Trading Company Limited, have successfully passed the GSP licence review inspection and were given positive comments by relevant experts.

## 3. Ensuring progress of construction projects through good organization

We have learnt from our experience and good practices of other enterprises, perfected the project assessment system, strengthened the chain management, and strived to minimize construction costs. The construction project of Xinhua Pharmaceutical (Shouguang) Company Limited, a wholly owned subsidiary of the Company, has had steady progress during the first half of 2009. Along with the completion of projects and commencement of production, our pharmaceutical intermediates supply was effectively ensured. Therefore, the Company had a competitive edge in the market.

## PLANS FOR THE SECOND HALF OF THE YEAR 2009

Although it is expected that prices of chemical raw materials are going to remain at a low level in the second half of 2009, we also expect the pharmaceutical raw materials prices to go down further. In light of the global financial crisis, outlook for medical products export is not optimistic. For the second half of the year, we will focus on the following:

1. To keep a close eye on the market and policies, pay attention to “Four Changes”, that is, changes in the pharmaceutical raw material market, changes in customers buying pharmaceutical raw materials, changes in competitors supplying pharmaceutical raw materials, and changes in healthcare reform policies and basic national medicine systems. We will take initiatives to respond to these changes so as to ensure that our annual sales target can be attained. Meanwhile, we will strictly control operating risks and aim at achieving a 100% money return-to-sales ratio.
2. To continue to implement the policy of “enhancing management, expanding market, restructuring business, and promoting development”, to focus on solving outstanding problems in operations and management, technology renovation, energy saving and emission reduction, safety and environmental protection, and upgrade our management skills. Internal and onsite management will be enhanced to ensure that we will pass the quality review to be conducted by overseas customers and complete the injection GMP authentication and licence renewal.
3. To carry out project construction in all industrial zones based on the principle of “uniform planning and step-by-step implementation”. We will put more efforts in the construction of the pharmaceutical intermediates project in Shouguang Park and will speed up its product serialization and standardization. We will relocate part of our product production speedily and stably so as to ensure that there is no delay in the production and relocation.

By order of the Board  
**Guo Qin**  
Chairman

24 July 2009  
Zibo, Shandong, PRC



The Group is mainly engaged in the development, manufacturing and sale of bulk pharmaceuticals, pharmaceutical preparations, chemical and other products. The profit of the Group is mainly attributable to these businesses.

### 1. LIQUIDITY AND ANALYSIS OF FINANCIAL RESOURCES AND CAPITAL STRUCTURE UNDER HKGAAP

As of 30 June 2009, the liquidity ratio of the Group was 138.61%, quick ratio was 104.64%, the turnover ratio of account receivables was 395.12% (turnover ratio of account receivables = turnover / average account receivables and net value of bills x 100%) and turnover ratio of inventory was 348.72% (inventory turnover ratio = cost of sales / average net value of inventory x 100%).

There was no significant seasonal effect on the capital demand of the Group.

The main source of funds for the Group was loans from financial institutions. As at 30 June 2009, the total amount of bank loans was approximately RMB339,064,000, of which RMB17,631,000 were secured loans while the other were unsecured loans. In relation to the bank loans of RMB339,064,000, RMB294,987,000 was at fixed interest rates and RMB44,077,000 was at Hong Kong Interbank Offer Rate. As at 30 June 2009, cash on hand and in bank amounted to approximately RMB310,046,000 (including the pledged deposits for acceptance of bills of exchange by banks and credit amounting to approximately RMB65,397,000).

The Group has stringent internal control systems for cash and fund management in order to strengthen financial management. The Group has sound liquidity and repayment ability.

During the six months ended 30 June 2009, the Company invested an additional RMB44,000,000 in Xinhua Pharmaceutical (Shouguang) Company Limited, and thus the paid up capital of this company has increased to RMB130,000,000 from RMB86,000,000. The company's development prospect is good.

Apart from the above transactions, the Group did not have any significant investment, takeovers, asset acquisitions or disposals during this reporting period.

The clarification of the performance results of the Group is referred to in the section headed "Results and Financial Analysis under PRC accounting standards".

As at 30 June 2009, the number of employees of the Group was 4,960. The total salaries for employees in the first half of 2009 amounted to RMB68,492,000.

As at 30 June 2009, in addition to the receivables RMB17,800,000 in relation to the export bill purchase, there were no other charges on the Group's assets.

It is expected that there will be no significant investment projects in the second half of 2009.

As at 30 June 2009, the capital debt ratio of the Group was 21.64% (capital debt ratio = total loans / share capital and total reserve x 100%).

The cash and bank balances of the Company will mainly be used as working capital for production, operation and research development.

The assets and debts of the Group were denominated in Renminbi. However, the Group achieved USD68,701,000 in its export for the first half of 2009. Therefore, there was a greater impact from foreign exchange. The Group adopted the following measures to minimise the foreign exchange fluctuation risk: 1. raising the export price in order to minimise foreign exchange fluctuation risk; and 2. when the Group enters into an export contract involving large quantities of products with other parties, the Group shall seek prior consent from the other party that both parties will bear the foreign exchange fluctuation risk should the foreign exchange fluctuation exceed the contractual limit as agreed by both parties.



## 2. RESULTS AND FINANCIAL ANALYSIS UNDER PRC ACCOUNTING STANDARDS

In the first half of 2009, the Group had achieved a turnover of RMB1,196,792,000 from its principal business, representing an increase of 4.92% as compared to the same period last year. The increase in revenue from the principal business was mainly attributable to the fact that the Group took advantage of the preparation sales market and promoted product structure adjustment, thus preparation product sales increased by 20.06% as compared to the same period last year. The increase in net cash and cash equivalents was RMB60,982,000, while there was a decrease of RMB17,865,000 in the same period last year. The main reason for the change was that there was an increase of RMB77,753,000 in net cash inflows from operating activities as compared to the same period last year. Operating profit amounted to RMB58,041,000, representing an increase of 84.09% as compared to the same period last year. The main reason for the increase was that the Group lowered raw material procurement costs by strengthening management. At the same time it improved the technology, reduced the consumption of raw materials and power and increased the product gross profit margin.

Total assets of the Group as at 30 June 2009 amounted to RMB2,404,612,000, representing an increase of RMB242,878,000 or 11.24% as compared to the figure of RMB2,161,734,000 as at 1 January 2009. This increase was mainly due to an increase in value of financial assets available for sale during this reporting period. The Group's bank loans as at 30 June 2009 was RMB339,064,000, representing an increase of RMB54,589,000 from RMB284,475,000 at the beginning of this year. Such increase was attributable to cash borrowed by the Company from the bank to ensure supply of funds for production and projects construction. The Company has obtained part of the loan during the reporting period. Shareholders' equity attributable to the Company as at 30 June 2009 increased by RMB101,173,000 or 6.96%, from RMB1,453,253,000 at the beginning of this year to RMB1,554,426,000. This increase was mainly attributable to an increase in the fair value of financial assets available for sale and operating profits of the Group.

An analysis of the Group's turnover from principal operations is as follows (RMB'000):

By geographical location of customers	First half of 2009		First half of 2008	
	Total turnover	Costs	Total turnover	Costs
PRC (incl. Hong Kong)	790,429	663,648	633,963	536,139
Europe	119,181	93,602	147,002	129,950
Americas	148,959	118,730	171,691	155,106
Others	116,411	76,369	166,492	140,289
Total	<u>1,174,980</u>	<u>952,349</u>	<u>1,119,148</u>	<u>961,484</u>
By industry and By product	Income from principal operations	Costs of sales of principal operations	Gross profit margin (%)	
Bulk pharmaceutical	614,065	464,975	24.28	
Preparations	244,635	179,124	26.78	
Medical commercial logistics	314,381	306,952	2.36	
Chemical products and other products	1,899	1,298	31.65	
Total	<u>1,174,980</u>	<u>952,349</u>	<u>18.95</u>	





An analysis of profit as compared to 2008 is as follows:

Items	Amount (RMB'000)		% of total profit	
	Jan-Jun 2009	2008	Jan-Jun 2009	2008
Operating profit	58,041	36,392	114.52	79.04
Profit/Loss from non-operation activities	(7,357)	9,648	(14.52)	20.96
Profit before taxation	50,684	46,040	100.00	100.00

Analysis of the reasons for changes: the percentage of the net non-operating income attributable to the total profit of this reporting period has seen a more substantial change because the Company received government subsidies of RMB12,000,000, and the Company has written off fixed assets of RMB5,100,000 during this reporting period.

### 3. USE OF PROCEEDS

On 3 September 2001, the Company raised an amount of RMB370,517,000 from the public offer and issue of 33,000,000 A Shares (including the sale of 3,000,000 State-owned shares). As at 30 June 2009, RMB327,459,000 were used in the following projects:

Name of project	Planned investment RMB'000	Actual investment Jan-Jun 2008 RMB'000	Accumulated amount of investment RMB'000	% of the investment	Remarks
State-level technical center renovation	74,500	—	17,526	23.52%	—
Injection GMP renovation	80,000	—	80,226	100.28%	completed
Caffeine technical renovation	160,000	—	188,201	117.63%	completed
L-350 technical renovation	29,980	—	23,442	78.19%	completed
Analgin GMP renovation	39,800	—	46,265	116.24%	completed
Total	384,280	—	355,660		RMB28,201,000 financed by the Company

- (1) Analgin (GMP) renovation project, L-350 technical renovation project reached their profit forecast;
- (2) Injection GMP renovation project did not reach its profit forecast due to the decrease in pharmaceutical prices;
- (3) Caffeine technical renovation did not reach its profit forecast due to price competition;
- (4) The renovation project of the state-level technical center has entered the construction stage.

The remaining proceeds were deposited with banks and will be used in accordance with the Company's project commitments.



1. There is no material deviation between the actual corporate governance implemented by the Company and the rules and requirements of corporate governance required to be observed by listed companies in the PRC.
2. The Board did not recommend the payment of any interim dividend, nor any transfer from reserves to share capital, for the year 2009.
3. The Group was not involved in any material litigation or arbitration, whether pending or threatened during the reporting period.
4. There was no material purchase of assets or disposal of the Company's assets nor did any material mergers or acquisition involving the Company occur during this reporting period. Similarly, no transactions of such nature occurred during the last reporting period which has been carried over to this reporting period.

5. Material Related Party Transactions

Related party transactions of the Company during the reporting period are set out in Note 10 to the accounts of the Company ("Accounts") prepared in conformity with PRC accounting standards and Note 13 to the Accounts prepared in conformity with HKGAAP.

6. During this reporting period, there was no trust, subcontract and lease of the assets between the Company and other companies.
7. The independent non-executive directors' special explanation and independent opinions in respect of the use of funds by related parties and external security provided are as follows:

The Company was in strict compliance with the regulations of the notice Zhengjianfa [2003] No.56 issued by the CSRC and there was no non-operational use of the Company's funds by the controlling shareholder and other related parties.

During this reporting period, there was no material guarantee provided by the Company, nor has there been any obligations that have not been performed in full by the Company. The Company was in strict compliance with the regulations of the notice Zhengjiafa [2003] no. 56 issued by the CSRC and there were no guarantees provided by any controlling shareholders, non-legal entity or individuals which were prejudicial to the interests of the Company and the shareholders, in particular the minority shareholders, of the Company. As at 30 June 2009, the Company had no overdue external guarantee debts and the Company had no liability arising from any guarantee due to the default of a guaranteed party.

8. The Company and its shareholders holding more than 5% of total number of issued shares of the Company have provided undertakings for information disclosure as follows:
  - (1) Within the period between the 36th to the 48th month from the listing date of the A Shares of the Company, SXPGC shall not sell any of its A shares of the Company on the SZSE at a price less than RMB4.8 per share (such price will be on an ex-rights basis if there is any declaration of dividends, bonus issues or capitalisation of capital reserve during the period between the day of implementation of the revised share reform of the Company and sale of the shares by SXPGC), being 150% of the average closing price of the listed A Shares as quoted on the SZSE in the thirty (30) trading days prior to the issuance date of the notice of relevant shareholders' meeting. Should SXPGC breach any of the undertakings, the proceeds resulting from such sale shall be transferred to the account of the Company and owned by the Company.
  - (2) As at 1 January 2006, SXPGC owed the Company the sum of RMB9,507,000 for non-business purposes. SXPGC repaid the capital by 30 June 2006 by way of cash. SXPGC guaranteed not to use any capital of the Company starting from 1 January 2006 for non-business purposes.



9. Purchase, Sales and Redemption of the Company's listed securities

During this reporting period, neither the Company nor its subsidiaries purchased, sold or redeemed any of its securities.

10. Management of Funds

During this reporting period, the Company did not appoint any person for managing the Company's funds. No such appointment was made in the preceding reporting period which has been carried over to this reporting period.

11. Information about holding other listed companies (RMB)

Stock Code	Abbreviated Name	Initial investment amount	Proportion of equity interest in investee	Book value of end of this period	Profit/loss of this period	Change of shareholder's equity of this period
601601	China Pacific Insurance	7,000,000.00	0.07%	111,900,000.00	—	47,855,000.00
601328	BANKCOMM	14,225,318.00	0.02%	67,322,720.00	—	27,119,624.00
600831	BC & TV Network	463,655.00	0.01%	384,196.80	—	88,465.28
600713	Nanjing Medical	568,800.00	0.02%	375,300.00	—	79,312.50
Total		22,257,773.00	—	179,982,216.80	—	75,142,401.78

12. Index of important information which has been disclosed

The announcement of the "2008 Annual Results Announcement" was published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 23 March 2009.

The announcement of the "The Notice of Annual General Meeting for the 2008" was published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 23 April 2009.

The announcement of the "The First Quarter Report of 2009" was published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 29 April 2009.

The announcement of the "Resignation of Independent Non-executive Director" was published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 30 April 2009.

The announcement of the "Announcement of 2008 Annual General Meeting Resolutions" and the announcement of the "Profit Prediction" were published on the HKExnews, in the Securities Times in the PRC, on the website: <http://www.cninfo.com.cn> and on the Company's website on 9 June 2009.



## 13. Information of reception research, communication and interview

Reception time	Reception location	Reception method	Reception objects	Main content of the discussion and the information provided
9 April 2009	Office address of the Company	Field study	Gao Hua Securities	Understand the production and operation of the Company
27 May 2009	Office address of the Company	Field study	Southern Fund	Understand the production and operation of the Company



### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Directors confirm that the Company was in compliance with the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Listing Rules and has not deviated from the Code during the six months ended 30 June 2009.

### **AUDIT COMMITTEE**

The Company set up the audit committee (the “Audit Committee”) in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee along with the management of the Company have reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting including the unaudited interim accounts for the six months ended 30 June 2009.

The Audit Committee agreed to the accounting standards, principles and methods adopted by the Group for the unaudited interim accounts for the six months ended 30 June 2009, and it has been disclosed fully.

### **INDEPENDENT NON-EXECUTIVE DIRECTOR**

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of independent non-executive directors and at least one independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive directors including one with financial management expertise, details of their biographies were set out in the 2008 Annual Report of the Company.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”)**

During this reporting period, the Company has adopted a code of conduct regarding transactions by Directors on terms no less exacting than the required standards set out in the Model Code. After having made specific enquiries in this reporting period, no Director or Supervisor has infringed upon the requirements set out in the Model Code, Appendix 10 to the Listing Rules.



## FINANCIAL REPORT PREPARED IN CONFORMITY WITH PRC ACCOUNTING STANDARDS FOR THE SIX MONTHS ENDED 30 JUNE 2009 (UNAUDITED)

### Consolidated and the Parent Company's Balance Sheet

Unit: RMB

Assets	Notes	2009.6.30		2008.12.31	
		Consolidated	Parent company	Consolidated	Parent company
<b>Current assets:</b>					
Cash	8.1	310,045,632.11	247,417,427.50	238,124,321.03	195,090,080.99
Held-for-trade financial assets		—	—	—	—
Notes receivable	8.2	137,718,046.28	102,533,915.56	82,743,811.99	75,160,033.26
Accounts receivable	8.3	246,121,871.12	279,131,966.68	206,778,423.86	256,925,926.86
Advance to suppliers	8.4	44,501,645.98	17,768,923.03	35,865,418.65	14,756,272.43
Interest receivable		—	—	—	—
Dividend receivable		—	—	—	—
Other receivable	8.5	20,078,330.00	27,269,811.21	15,623,193.15	24,483,887.80
Inventories	8.6	245,776,964.07	161,511,142.89	304,514,308.52	201,914,101.83
Non-current assets due within one year		—	—	—	—
Other current assets		—	—	—	—
<b>Sub-total of current assets</b>		<b>1,004,242,489.56</b>	<b>835,633,186.87</b>	<b>883,649,477.20</b>	<b>768,330,303.17</b>
<b>Non-current assets:</b>					
Available-for-sale financial assets	8.7	183,182,216.80	182,806,916.80	94,766,950.00	94,497,400.00
Held-to-maturity investment		—	—	—	—
Long-term receivable		—	—	—	—
Long-term equity investment	8.8	28,717,731.44	247,187,332.43	27,489,044.33	201,914,628.68
Investment property		—	—	—	—
Fixed assets	8.9	965,126,981.46	834,534,749.81	955,853,848.53	862,059,705.23
Construction in progress	8.10	113,785,174.41	98,646,669.60	88,205,679.79	57,425,955.46
Construction materials		—	—	—	—
Disposal of fixed assets		—	—	—	—
Biological assets		—	—	—	—
Oil and nature gas		—	—	—	—
Intangible assets	8.11	108,552,624.52	101,658,703.26	110,738,399.27	103,732,638.48
Research & Development cost		—	—	—	—
Goodwill		—	—	—	—
Long-term prepayments		—	—	—	—
Deferred tax assets	8.12	1,004,482.07	—	1,030,919.57	—
Other non-current assets		—	—	—	—
<b>Sub-total of non-current assets</b>		<b>1,400,369,210.70</b>	<b>1,464,834,371.90</b>	<b>1,278,084,841.49</b>	<b>1,319,630,327.85</b>
<b>Total of Assets</b>		<b>2,404,611,700.26</b>	<b>2,300,467,558.77</b>	<b>2,161,734,318.69</b>	<b>2,087,960,631.02</b>



# FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

Unit: RMB

Liabilities & Shareholders' equity	Notes	2009.6.30		2008.12.31	
		Consolidated	Parent company	Consolidated	Parent company
<b>Current liabilities:</b>					
Short-term loans held-for-trade financial liabilities	8.13	279,063,787.00	274,076,500.00	284,474,500.00	284,094,500.00
notes payable	8.14	692,363.35	692,363.35	7,591,083.73	7,379,442.43
Accounts payable	8.15	155,085,521.35	154,635,521.35	121,265,800.00	121,265,800.00
Deposit payable	8.16	143,357,617.41	91,555,982.16	133,824,183.65	100,429,192.00
Employee benefits payable	8.17	14,451,073.69	6,380,187.26	6,935,628.53	2,837,038.09
Tax payable	8.18	23,848,013.80	22,808,683.36	32,196,663.53	31,279,033.45
Interest payable	8.19	10,087,015.55	13,725,337.69	453,194.93	1,191,765.24
Dividends payable		—	—	—	—
Other payable	8.20	14,544,521.16	14,544,521.16	5,325,136.26	5,325,136.26
Other current liabilities	8.21	97,018,282.21	83,628,526.27	78,458,681.40	71,808,474.75
<b>Sub-total of current liabilities</b>		<b>738,148,195.52</b>	<b>662,047,622.60</b>	<b>670,524,872.03</b>	<b>625,610,382.22</b>
<b>Non-current liabilities:</b>					
Long-term borrowings	8.22	60,000,000.00	60,000,000.00	—	—
Bonds payable		—	—	—	—
Long-term payables		—	—	—	—
Specific payables		—	—	—	—
Provisions		—	—	—	—
Deferred tax liabilities	8.23	14,899,589.45	14,899,589.45	650,100.07	650,100.07
Other non-current liabilities		3,561,500.00	3,561,500.00	3,561,500.00	3,561,500.00
<b>Sub-total of non-current liabilities</b>		<b>78,461,089.45</b>	<b>78,461,089.45</b>	<b>4,211,600.07</b>	<b>4,211,600.07</b>
<b>Total liabilities</b>		<b>816,609,284.97</b>	<b>740,508,712.05</b>	<b>674,736,472.10</b>	<b>629,821,982.29</b>
<b>Shareholders' equity:</b>					
Capital	8.24	457,312,830.00	457,312,830.00	457,312,830.00	457,312,830.00
Capital surplus	8.25	692,645,135.40	693,149,329.38	617,502,733.62	618,086,240.10
Less: Treasury stock		—	—	—	—
Special reserve		—	—	—	—
Surplus reserve	8.26	167,309,492.08	166,646,950.77	167,309,492.08	166,646,950.77
General risk provision		—	—	—	—
Undistributed profits	8.27	236,727,163.93	242,849,736.57	210,690,983.71	216,092,627.86
Foreign currency statements translation difference		431,850.14	—	436,951.95	—
<b>Sub-total of shareholders' equity attributable to the parent company</b>		<b>1,554,426,471.55</b>	<b>1,559,958,846.72</b>	<b>1,453,252,991.36</b>	<b>1,458,138,648.73</b>
Minority Interest	8.28	33,575,943.74	—	33,744,855.23	—
<b>Total shareholders' equity</b>		<b>1,588,002,415.29</b>	<b>1,559,958,846.72</b>	<b>1,486,997,846.59</b>	<b>1,458,138,648.73</b>
<b>Total liabilities &amp; shareholders' equity</b>		<b>2,404,611,700.26</b>	<b>2,300,467,558.77</b>	<b>2,161,734,318.69</b>	<b>2,087,960,631.02</b>



## Consolidated and the Parent Company's Income Statement

Unit: RMB

Item	Notes	First half of 2009		First half of 2008	
		Consolidated	Parent company	Consolidated	Parent company
<b>1. Total Operating Income</b>		<b>1,196,792,146.64</b>	<b>784,725,133.18</b>	1,140,652,669.14	825,436,481.98
Including: Operating Income	8.29	1,196,792,146.64	784,725,133.18	1,140,652,669.14	825,436,481.98
<b>2. Total Operating Costs</b>		<b>1,151,722,488.27</b>	<b>743,297,685.20</b>	1,097,174,644.47	786,383,574.55
Including: Operating Costs	8.29	976,473,336.24	626,225,077.32	982,221,701.57	716,170,595.02
Taxes and surcharges	8.30	6,933,122.86	5,664,525.82	4,878,673.38	4,281,619.43
Selling and distribution expenses		79,536,761.31	34,821,029.72	56,196,494.87	20,875,635.22
General and administrative expenses		73,492,127.93	61,543,421.68	52,666,864.44	43,796,570.31
Financial expenses	8.31	15,287,139.93	15,043,630.66	1,191,844.22	1,259,154.57
Impairment loss of assets	8.32	—	—	19,065.99	—
Add: Gain or Loss from changes in fair value (decrease is presented in bracket)	8.33	6,898,720.38	6,687,079.08	(13,634,789.28)	(13,634,789.28)
Investment gain or loss (decrease is presented in bracket)	8.34	6,072,233.75	8,075,783.75	1,685,831.97	1,207,112.97
Including: Investment gain or loss from joint ventures and associates		3,822,703.75	3,822,703.75	556,319.97	556,319.97
Exchange gain or loss (decrease is presented in bracket)		—	—	—	—
<b>3. Operating profit (decrease is presented in bracket)</b>		<b>58,040,612.50</b>	<b>56,190,310.81</b>	31,529,067.36	26,625,231.12
Add: Non-operating income	8.35	911,199.91	776,873.19	1,151,488.76	870,984.78
Less: Non-operating Cost	8.36	8,268,285.52	8,156,158.42	2,112,137.44	1,556,370.69
Including: Disposal gain or loss on non-current assets		5,174,106.18	5,162,269.37	146,667.12	146,667.12
<b>4. Income before tax (decrease is presented in bracket)</b>		<b>50,683,526.89</b>	<b>48,811,025.58</b>	<b>30,568,418.68</b>	<b>25,939,845.21</b>
Less: Income tax expense	8.37	8,836,807.36	8,334,531.97	8,696,030.18	7,442,193.75
<b>5. Net profit (decrease is presented in bracket)</b>		<b>41,846,719.53</b>	<b>40,476,493.61</b>	21,872,388.50	18,497,651.46
Attributable to: Equity holder of the parent company		39,887,094.33	—	20,457,174.27	—
Minority interests		1,959,625.20	—	1,415,214.23	—
<b>6. Earnings per share</b>					
(1) Basic		0.09	0.09	0.04	0.04
(2) Diluted		0.09	0.09	0.04	0.04
<b>7. Other comprehensive income</b>		<b>75,135,767.43</b>	<b>75,063,089.28</b>	(180,010,676.87)	(180,048,768.00)
<b>8. Total comprehensive income</b>		<b>116,982,486.96</b>	<b>115,539,582.89</b>	(158,138,288.37)	(161,551,116.54)
Total comprehensive income attributable to the equity shareholders of the parent company		115,024,394.30	—	(159,562,301.65)	—
Total comprehensive income attributable to the minority interest		1,958,092.66	—	1,424,013.28	—





## Consolidated and the Parent Company's Cash Flow Statement

Unit: RMB

Item	Notes	First half of 2009		First half of 2008	
		Consolidated	Parent company	Consolidated	Parent company
<b>1. CASH FLOW FROM OPERATING ACTIVITIES</b>					
Cash receipts from the sale of goods or rendering of services		890,300,411.43	679,468,131.36	827,755,265.48	567,516,612.90
Receipts of taxes refunds		2,126,188.62	—	4,758,054.66	3,105,906.23
Other cash receipts relating to operating activities	8.38	10,000,448.37	12,918,307.43	20,822,447.93	24,861,413.22
<b>SUB-TOTAL OF CASH INFLOWS</b>		<b>902,427,048.42</b>	<b>692,386,438.79</b>	<b>853,335,768.07</b>	<b>595,483,932.35</b>
Cash payments for goods purchased and services received		533,591,495.19	399,416,106.39	574,240,571.21	356,844,486.55
Cash paid to and on behalf of employees		107,287,032.47	93,789,398.73	97,343,512.74	86,115,790.21
Payments of all types of taxes		49,677,898.18	34,142,802.54	44,138,672.39	34,688,841.54
Other cash payments relating to operating activities	8.38	90,137,015.32	47,915,059.93	93,632,648.41	100,147,406.17
<b>SUB-TOTAL OF CASH OUTFLOWS</b>		<b>780,693,441.16</b>	<b>575,263,367.59</b>	<b>809,355,404.75</b>	<b>577,796,524.47</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>121,733,607.26</b>	<b>117,123,071.20</b>	<b>43,980,363.32</b>	<b>17,687,407.88</b>
<b>2. CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Cash receipts from disposals and return of investments		—	—	8,723,619.00	—
Cash receipts from returns on investments		2,249,530.00	4,253,080.00	650,793.00	650,793.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		276,235.59	276,235.59	368,436.00	368,436.00
Net cash receipts from disposals of subsidiaries and other business units		—	—	—	—
Other cash receipts relating to investing activities		—	—	—	—
<b>SUB-TOTAL OF CASH INFLOWS</b>		<b>2,525,765.59</b>	<b>4,529,315.59</b>	<b>9,742,848.00</b>	<b>1,019,229.00</b>
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		102,943,872.81	73,358,781.52	91,398,961.50	81,092,730.19
Cash payments to acquire investment		—	44,000,000.00	13,972,368.00	61,972,368.00
Net cash payments for acquisitions of subsidiaries and other business units		—	—	—	—
Other cash payments relating to investing activities		—	—	—	—
<b>SUB-TOTAL OF CASH OUTFLOWS</b>		<b>102,943,872.81</b>	<b>117,358,781.52</b>	<b>105,371,329.50</b>	<b>143,065,098.19</b>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(100,418,107.22)</b>	<b>(112,829,465.93)</b>	<b>(95,628,481.50)</b>	<b>(142,045,869.19)</b>



Unit: RMB

Item	Notes	First half of 2009		First half of 2008	
		Consolidated	Parent company	Consolidated	Parent company
<b>3. CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash receipts from investors in making investment in the enterprise		—	—	—	—
Including: Cash receipts from the subsidiaries by absorbing the minorities' equity investment		—	—	—	—
Cash receipts from borrowings		144,989,477.00	140,000,000.00	135,423,370.94	120,000,000.00
Cash receipts from bonds		—	—	—	—
Other cash receipts relating to financing activities		—	—	—	—
<b>SUB-TOTAL OF CASH INFLOWS</b>		<b>144,989,477.00</b>	<b>140,000,000.00</b>	<b>135,423,370.94</b>	<b>120,000,000.00</b>
Cash repayments of amounts borrowed		90,380,000.00	90,000,000.00	94,112,330.60	40,000,000.00
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		14,536,628.34	12,540,628.34	4,059,349.45	4,059,349.45
Including: Cash payments by the subsidiaries to the minority shareholders		1,996,000.00	—	—	—
Other cash payments relating to financing activities		—	—	—	—
<b>SUB-TOTAL OF CASH OUTFLOWS</b>		<b>104,916,628.34</b>	<b>102,540,628.34</b>	<b>98,171,680.05</b>	<b>44,059,349.45</b>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>40,072,848.66</b>	<b>37,459,371.66</b>	<b>37,251,690.89</b>	<b>75,940,650.55</b>
<b>4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH</b>		<b>(405,954.21)</b>	<b>(364,547.01)</b>	<b>(3,468,611.40)</b>	<b>(3,386,851.21)</b>
<b>5. NET INCREASE OF CASH AND CASH EQUIVALENT</b>		<b>60,982,394.49</b>	<b>41,388,429.92</b>	<b>(17,865,038.69)</b>	<b>(51,804,661.97)</b>
Add: Beginning balance of cash and cash equivalents		183,666,637.62	140,632,397.58	199,832,528.24	163,318,552.44
<b>6. CASH EQUIVALENT</b>		<b>244,649,032.11</b>	<b>182,020,827.50</b>	<b>181,967,489.55</b>	<b>111,513,890.47</b>



# FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

## Consolidated Statement of Changes in Shareholder's Equity in the first half of 2009

Unit: RMB

Item	Equity attributable to the parent company									Minority Interest	Shareholder's Equity
	Share capital	Capital surplus	Less: Treasury stock	Special reserve	Surplus reserves	General risk provision	Undistributed profit	Others			
1. Ending balance of last year	457,312,830.00	617,502,733.62	—	—	167,309,492.08	—	210,690,983.71	436,951.95	33,744,855.23	1,486,997,846.59	
Add: Effects of the changes of accounting policies	—	—	—	—	—	—	—	—	—	—	
Effects of the changes of prior accounting errors	—	—	—	—	—	—	—	—	—	—	
2. Beginning balance of the year	457,312,830.00	617,502,733.62	—	—	167,309,492.08	—	210,690,983.71	436,951.95	33,744,855.23	1,486,997,846.59	
3. Increase/decreased in the year											
(decrease is presented in bracket)	—	75,142,401.78	—	—	—	—	26,036,180.22	(5,101.81)	(168,911.49)	101,004,568.70	
(I) Net profit	—	—	—	—	—	—	39,887,094.33	—	1,959,625.20	41,846,719.53	
(II) Gain or loss directly included in shareholders' equity	—	75,142,401.78	—	—	—	—	—	(5,101.81)	(1,532.54)	75,135,767.43	
a. Net changes in fair value of available-for-sale financial assets	—	88,415,266.80	—	—	—	—	—	—	—	88,415,266.80	
b. Effects of the changes of other shareholders' equity of the investees under equity method	—	—	—	—	—	—	—	—	—	—	
c. Effects of income tax related to shareholder's equity	—	(13,272,865.02)	—	—	—	—	—	—	—	(13,272,865.02)	
d. Others	—	—	—	—	—	—	—	(5,101.81)	(1,532.54)	(6,634.35)	
Sub-total of (I) & (II)	—	75,142,401.78	—	—	—	—	39,887,094.33	(5,101.81)	1,958,092.66	116,982,486.96	
(III) Shareholder's devoted capital and decreased capital	—	—	—	—	—	—	—	—	—	—	
a. shareholders' devoted capital	—	—	—	—	—	—	—	—	—	—	
b. Paid in shares included in shareholders' equity	—	—	—	—	—	—	—	—	—	—	
c. Others	—	—	—	—	—	—	—	—	—	—	
(IV) Profit distribution	—	—	—	—	—	—	(13,850,914.11)	—	(2,127,004.15)	(15,977,918.26)	
a. Withdrawal of surplus reserves	—	—	—	—	—	—	—	—	—	—	
b. Distributions to shareholders	—	—	—	—	—	—	(13,719,384.90)	—	(1,996,000.00)	(15,715,384.90)	
c. Withdrawal of general risk provision	—	—	—	—	—	—	—	—	—	—	
d. Others	—	—	—	—	—	—	(131,529.21)	—	(131,004.15)	(262,533.36)	
(V) Carrying forward internal shareholders' equity	—	—	—	—	—	—	—	—	—	—	
a. Capital surplus conversed to capital (Share capital)	—	—	—	—	—	—	—	—	—	—	
b. Surplus reserves conversed to capital (Share capital)	—	—	—	—	—	—	—	—	—	—	
c. Remedying loss with surplus reserves	—	—	—	—	—	—	—	—	—	—	
d. Others	—	—	—	—	—	—	—	—	—	—	
4. Ending balance of the year	457,312,830.00	692,645,135.40	—	—	167,309,492.08	—	236,727,163.93	431,850.14	33,575,943.74	1,588,002,415.29	



Consolidated Statement of Changes in Shareholder's Equity in the first half of 2008

Unit: RMB

Item	Equity attributable to the parent company						General risk provision	Undistributed profit	Others	Minority Interest	Shareholder's Equity
	Share capital	Capital surplus	Less: Treasury stock	Special reserve	Surplus reserves						
1. Ending balance of last year	457,312,830.00	850,245,800.85	—	—	164,257,990.01	—	193,496,393.27	647,937.91	50,793,103.89	1,716,754,055.93	
Add: Effects of the changes of accounting policies	—	—	—	—	—	—	—	—	—	—	
Effects of the changes of prior accounting errors	—	—	—	—	—	—	—	—	—	—	
2. Beginning balance of the year	457,312,830.00	850,245,800.85	—	—	164,257,990.01	—	193,496,393.27	647,937.91	50,793,103.89	1,716,754,055.93	
3. Increase/decreased in the year											
(decrease is presented in bracket)	—	(180,048,768.00)	—	—	—	—	6,737,789.37	29,292.08	(21,060,563.03)	(194,342,249.58)	
(I) Net profit	—	—	—	—	—	—	20,457,174.27	—	1,415,214.23	21,872,388.50	
(II) Gain or loss directly included in shareholders' equity	—	(180,048,768.00)	—	—	—	—	—	29,292.08	8,799.05	(180,010,676.87)	
a. Net changes in fair value of available-for-sale financial assets	—	(211,822,080.00)	—	—	—	—	—	—	—	(211,822,080.00)	
b. Effects of the changes of other shareholders' equity of the investees under equity method	—	—	—	—	—	—	—	—	—	—	
c. Effects of income tax related to shareholder's equity	—	31,773,312.00	—	—	—	—	—	—	—	31,773,312.00	
d. Others	—	—	—	—	—	—	—	29,292.08	8,799.05	38,091.13	
Sub-total of (I) & (II)	—	(180,048,768.00)	—	—	—	—	20,457,174.27	29,292.08	1,424,013.28	(158,138,288.37)	
(III) Shareholder's devoted capital and decreased capital	—	—	—	—	—	—	—	—	(22,484,576.31)	(22,484,576.31)	
a. Shareholder's devoted capital	—	—	—	—	—	—	—	—	(22,484,576.31)	(22,484,576.31)	
b. Paid in shares included in shareholders' equity	—	—	—	—	—	—	—	—	—	—	
c. Others	—	—	—	—	—	—	—	—	—	—	
(IV) Profit distribution	—	—	—	—	—	—	(13,719,384.90)	—	—	(13,719,384.90)	
a. Withdrawal of surplus reserves	—	—	—	—	—	—	—	—	—	—	
b. Distributions to shareholders	—	—	—	—	—	—	(13,719,384.90)	—	—	(13,719,384.90)	
c. Withdrawal of general risk provision	—	—	—	—	—	—	—	—	—	—	
d. Others	—	—	—	—	—	—	—	—	—	—	
(V) Carrying forward internal shareholders' equity	—	—	—	—	—	—	—	—	—	—	
a. Capital surplus conversed to capital (Share capital)	—	—	—	—	—	—	—	—	—	—	
b. Surplus reserves conversed to capital (Share capital)	—	—	—	—	—	—	—	—	—	—	
c. Remedying loss with surplus reserves	—	—	—	—	—	—	—	—	—	—	
d. Others	—	—	—	—	—	—	—	—	—	—	
4. Ending balance of the year	457,312,830.00	670,197,032.85	—	—	164,257,990.01	—	200,234,182.64	677,229.99	29,732,540.86	1,522,411,806.35	



# FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

## The Parent Company's Statement of Changes in Shareholder's Equity in the first half of 2009

Unit: RMB

Item	Share capital	Capital surplus	Less: treasury stock	Special reserve	Surplus reserves	General risk provision	Undistributed profit	Others	Total shareholders' equity
1. Ending balance of last year	457,312,830.00	618,086,240.10	—	—	166,646,950.77	—	216,092,627.86	—	1,458,138,648.73
Add: Effects of the changes of accounting policies	—	—	—	—	—	—	—	—	—
Effects of the changes of prior accounting errors	—	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	618,086,240.10	—	—	166,646,950.77	—	216,092,627.86	—	1,458,138,648.73
3. Increase/decreased in the year									
(decrease is presented in bracket)	—	75,063,089.28	—	—	—	—	26,757,108.71	—	101,820,197.99
(I) Net profit	—	—	—	—	—	—	40,476,493.61	—	40,476,493.61
(II) Gain or loss directly included in shareholders' equity	—	75,063,089.28	—	—	—	—	—	—	75,063,089.28
a. Net changes in fair value of available-for-sale financial assets	—	88,309,516.80	—	—	—	—	—	—	88,309,516.80
b. Effects of the changes of other shareholders' equity of the investees under equity method	—	—	—	—	—	—	—	—	—
c. Effects of income tax related to shareholder's equity	—	(13,246,427.52)	—	—	—	—	—	—	(13,246,427.52)
d. Others	—	—	—	—	—	—	—	—	—
Sub-total of (I) & (II)	—	75,063,089.28	—	—	—	—	40,476,493.61	—	115,539,582.89
(III) Shareholder's devoted capital and decreased capital	—	—	—	—	—	—	—	—	—
a. Shareholders' devoted capital	—	—	—	—	—	—	—	—	—
b. Paid in shares included in shareholders' equity	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—
(IV) Profit distribution	—	—	—	—	—	—	(13,719,384.90)	—	(13,719,384.90)
a. Withdrawal of surplus reserves	—	—	—	—	—	—	—	—	—
b. Distributions to shareholders	—	—	—	—	—	—	(13,719,384.90)	—	(13,719,384.90)
c. Withdrawal of general risk provision	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—
(V) Carrying forward internal shareholders' equity	—	—	—	—	—	—	—	—	—
a. Capital surplus converted to capital (Share capital)	—	—	—	—	—	—	—	—	—
b. Surplus reserves converted to capital (Share capital)	—	—	—	—	—	—	—	—	—
c. Remedying loss with surplus reserves	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	693,149,329.38	—	—	166,646,950.77	—	242,849,736.57	—	1,559,958,846.72



## The Parent Company's Statement of Changes in Shareholder's Equity in the first half of 2008

Unit: RMB

Item	Share capital	Capital surplus	Less: treasury stock	Special reserve	Surplus reserves	General risk provision	Undistributed profit	Others	Total shareholders' equity
1. Ending balance of last year	457,312,830.00	850,245,800.85	—	—	163,595,448.70	—	202,348,494.18	—	1,673,502,573.73
Add: Effects of the changes of accounting policies	—	—	—	—	—	—	—	—	—
Effects of the changes of prior accounting errors	—	—	—	—	—	—	—	—	—
2. Beginning balance of the year	457,312,830.00	850,245,800.85	—	—	163,595,448.70	—	202,348,494.18	—	1,673,502,573.73
3. Increase/decreased in the year (decrease is presented in bracket)	—	(180,048,768.00)	—	—	—	—	4,778,266.56	—	(175,270,501.44)
(I) Net profit	—	—	—	—	—	—	18,497,651.46	—	18,497,651.46
(II) Gain or loss directly included in shareholders' equity	—	(180,048,768.00)	—	—	—	—	—	—	(180,048,768.00)
a. Net changes in fair value of available-for-sale financial assets	—	(211,822,080.00)	—	—	—	—	—	—	(211,822,080.00)
b. Effects of the changes of other shareholders' equity of the investees under equity method	—	—	—	—	—	—	—	—	—
c. Effects of income tax related to shareholder's equity	—	31,773,312.00	—	—	—	—	—	—	31,773,312.00
d. Others	—	—	—	—	—	—	—	—	—
Sub-total of (I) & (II)	—	(180,048,768.00)	—	—	—	—	18,497,651.46	—	(161,551,116.54)
(III) Shareholder's devoted capital and decreased capital	—	—	—	—	—	—	—	—	—
a. Shareholders' devoted capital	—	—	—	—	—	—	—	—	—
b. Paid in shares included in shareholders' equity	—	—	—	—	—	—	—	—	—
c. Others	—	—	—	—	—	—	—	—	—
(IV) Profit distribution	—	—	—	—	—	—	(13,719,384.90)	—	(13,719,384.90)
a. Withdrawal of surplus reserves	—	—	—	—	—	—	—	—	—
b. Distributions to shareholders	—	—	—	—	—	—	(13,719,384.90)	—	(13,719,384.90)
c. Withdrawal of general risk provision	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—
(V) Carrying forward internal shareholders' equity	—	—	—	—	—	—	—	—	—
a. Capital surplus converted to capital (Share capital)	—	—	—	—	—	—	—	—	—
b. Surplus reserves converted to capital (Share capital)	—	—	—	—	—	—	—	—	—
c. Remedying loss with surplus reserves	—	—	—	—	—	—	—	—	—
d. Others	—	—	—	—	—	—	—	—	—
4. Ending balance of the year	457,312,830.00	670,197,032.85	—	—	163,595,448.70	—	207,126,760.74	—	1,498,232,072.29

**NOTES TO THE ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS (UNLESS OTHERWISE INDICATED, ALL FIGURES ARE STATED IN RMB'000)****1. BACKGROUND OF THE COMPANY**

Shandong Xinhua Pharmaceutical Company Limited (hereafter referred to the “Company”) was established in 1993, which dating from the reorganization of Shandong Xinhua Pharmaceutical Factory. The Company issued its H Shares at Hong Kong Stock Exchange in December 1996 and its A Shares been on Shenzhen Stock Exchange in July 1997. The Company became to a foreign invested joint stock company in November 1998, when approved by the Ministry of Foreign Trade and Economic Cooperation of P.R. China. The Company issued additional 30 million ordinary A shares as well as decreased 3 million state-held shares in September 2001.

The Company’s registered capital ending in 30 June 2009 is RMB457.313 million, its share capital configuration as follow:

	Shares	Amount	Ratio
State-held shares	163,259	163,259	35.70%
Legal-person shares	24,527	24,527	5.36%
Senior management-held sale prohibited shares	23	23	0.01%
Publicly-held H shares	150,000	150,000	32.80%
Publicly-held A shares	119,504	119,504	26.13%
Total	<u>457,313</u>	<u>457,313</u>	<u>100%</u>

The Company is mainly engaged in developing, manufacturing, selling bulk pharmaceuticals, preparations and chemicals products.

According to the approved Luke [2009] No.12 document approval from Science & Technology office of Shandong Province, Shandong Department of Finance, Shandong National Revenue Department, and the Inland Revenue Department of Shandong province, the Company has been recognized as a high-tech enterprise.

The Company’s registered its address at Chemical Area of Zibo New and High Technology Industrial Development Zone, Shandong Province.

**2. BASIS OF THE PREPARATION FOR FINANCIAL STATEMENTS**

The financial statements shall be prepared on the basis of hypothesis continual operating.

**3. THE STATEMENT WILL GO COMPILING WITH THE ASBEs**

The Company ensures the financial statements have been prepared compiling with the requirements of the ASBEs, and which will be revealed fairly in all material respects, the financial position of the Company, the operations results as well as the cash flows of the Company.

**4. ACCOUNTING POLICIES, ALTERATION OF ACCOUNTING ESTIMATES AND RECTIFICATION FOR SIGNIFICANT ERRORS OF LAST YEAR**

The Company has no change in accounting polices, alteration of accounting estimated and rectification for significant errors of last year during January to June 2009.



## 5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PRESENTATION FOR CONSOLIDATION

### 1. Accounting Period

The fiscal period of the Company is from January 1 to December 31 of each calendar year.

### 2. Reporting currency

The Company's reporting currency is Renminbi ("RMB").

### 3. Measurement Basis and its Changes in the Period

The company is based on the accrual basis for accounting foundation, and except of held-for-tread financial assets, available-for-sale financial assets at fair value, others accounting are based on the historical cost pricing principle.

### 4. Cash and Cash Equivalents

The cash in the Cash Flow Statement refers to the cash-on-hand and deposits, those which are available for payment at any time. The cash equivalents refer to short-term (due within 3 months since the date of purchase) and highly liquid investments, those which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

### 5. Foreign Currency Transactions

#### 5.1 Foreign Currency Transactions

Foreign currency transactions shall be exchanged into RMB according with the spot exchange rate on the first day of the month, in which the transactions occurred. Foreign currency monetary items shall be exchanged using the spot exchange rate on the balance sheet date, exchange differences arising from the differences between the spot exchange rate be prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date been recognized in profit or loss for the current period, except for those difference related to the principal and interest on a specific-purpose borrowing denominated in foreign currency for acquisitions, constructions or production of the qualified assets, which will be capitalized as cost of the assets. Foreign currency non-momentary items measured in fair value shall be translated using the spot exchange rate at the date when the fair value was determined. Exchange differences arising from the differences of exchange rate are recognized as changes in fair value in profit or loss for the current period. Foreign currency non-monetary items measured in historic cost shall still be translated using the spot exchange rate when the transaction occurred.





## 5.2 Translation of Financial Statements Denominated in Foreign Currency

The Company shall translate the financial statements of a foreign operation as follows: assets and liabilities on the balance sheet will be translated at the spot rate prevailing at the balance sheet date, while the equity items except for undistributed profits on the balance sheet will be translated at the spot exchange rate when they occurred. Income and expenses on the income statement will be translated at the spot exchange rate at the date of the transactions. Differences arising from the above translations shall be presented as a separated component of shareholders' equity on the balance sheet. Exchange differences of the foreign currency items, which are substantively net investment to a foreign operation, arising from the change of the exchange rate shall be presented as a separated component of shareholders' equity on the balance sheet as well when the Company prepare the combined financial statements. Exchange differences related with the disposed foreign operation shall be transferred to profit or loss as the proportionate share in which the disposal occurs.

Cash flow dominated in foreign currency or from the foreign subsidiaries shall be translated at the spot rate when occurs. Effects arising from change of exchange rate of cash shall be presented separated in cash flow statement.

## 6. Financial Assets and Financial Liabilities

### 6.1 Classification of financial assets

The Company classified the financial assets as held-for-trading financial assets, available-for-sale financial assets, receivables and held-to-maturity investments by the purpose and substance of investments.

- (1) Accounting in fair value changes and its change reckoning in the current profit and loss financial assets refers to financial assets with the purpose of sale in short term, and on-balance sheet list in held-for tread financial assets.
- (2) Available-for-sale financial assets refer to initial recognition and it was designated as available-for-sale of non-derivative financial assets and is not divided into other categories of financial assets.
- (3) Accounting receivables refers to receivables are not in an active market quotation, recycling fixed or determinable amount of non-derivative financial assets, including notes receivable, accounts receivable, interest receivable, dividends receivable and other receivables, etc
- (4) Held-to-maturity investments refer to non-derivative financial assets with a fixed maturity date, the amount of recycling fixed or determinable, and the management has a clear intention, even they getting an ability to hold to maturity.

### 6.2 Recognition and measurement of financial assets

The financial asset shall be originally measured at its fair value. Transaction cost arising from acquisitions of financial assets at fair value through profit or loss shall be charged to the profit or loss for the current period. For other financial assets, the transaction costs shall be included in their initial recognition amounts. The Company shall derecognize a financial asset if the contractual rights to the cash flows from the financial asset expire, or all the risks and rewards belonging to the ownership of a financial asset have been substantively transferred to the transferee.

After initial recognition, the Company shall measure the financial assets at fair value through profit or loss and available-for-sale financial assets at their fair values, while investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost. Receivables and held-to-maturity investments shall be measured at amortized cost using the effective interest method.



Gain or loss arising from changes in fair value of financial assets at fair value through profit or loss shall be recognized in current profit or loss. Interests or dividends achieved during the holding period shall be recognized as investment income. Difference between fair value and initial recognized amount arising from the disposal shall be recognized as investment income and presented in current profit or loss.

Gain or loss arising from changes in fair value of available-for-sale financial assets shall be recognized in shareholders' equity; Interests calculated using the effective interest method achieved during the holding period shall be recognized as investment income; Dividends on an available-for-sale equity instruments shall be recognized as investment income when the investee declares the dividends. Difference between the considerations of disposal and the carrying amount of financial assets deducted with any accumulative gain or loss that had been directly recognized in shareholders' equity shall be recognized in profit or loss.

### 6.3 Impairment of financial assets

The Company shall assess the carrying amount of financial assets other than those at fair value through profit or loss at the balance sheet date. If there is objective evidence that the financial asset is impaired, the Company shall determine the amount of any impairment loss. When an available-for-sale financial asset is impaired substantially or perpetually, the cumulative loss arising from decline in fair value that had been recognised directly in owner's equity shall be removed from owner's equity and recognised in profit or loss. If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss. Impairment losses recognised for an investment in an equity instrument classified as available-for-sale shall be reversed through owner's equity if the fair value increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised. The impairment loss on an investment in unquoted equity instrument without a quoted price in an active market whose fair value cannot be reliably measured shall not be reversed.

### 6.4 Financial liabilities

The Company's liabilities were initially split into fair value changes where its change count towards current profit and loss under current liabilities and other financial liabilities.

Fair value changes where its change count towards current losses or gains under current liabilities includes transactional financial liabilities and fair value changes that are initially designated as financial liabilities. These financial liabilities must be audited in accordance with follow-up measurements of fair value changes. Profit and loss due to fair value changes and expenditures including interests and dividends in relation to financial debts are included under current profit and loss.

Other financial liabilities are calculated in accordance with the actual interest method where follow up measurements are calculated by distributing profit throughout the year.



## 7. Accounting for bad debts loss

- 7.1 On the balance sheet date, the Company inspects the book value of account receivables and matters including the existence of debt revocation, bankruptcy, insolvency, serious shortage of cash flow, occurrence of natural disasters, other debts that as foreseen are not repaid in accordance to plan, other overdue debt obligations where receivables cannot be recovered. If any of the above occurs, the Company will make provision for bad debts.
- 7.2 Of bad debts losses, for those will be possible to happen, the company adopts allowance method accounting, at the ending of balance, in accordance with the method of analysis provision for bad debts, gain or loss reckoning into the current period. Receivables, if there are indeed evidence proving them as to uncollectible receivables, in accordance with the policies setting out by procedures, the company should list them as bad debts losses as well as written off bad debts extract preparation. Receivables in the company's dealings with related party, provision for bad debts are usually not prepared.
- 7.3 Receivables which over 500 million shall be regard as the individual significant accounts receivables by the company, while if there are any objective evidence indicating that the receivables cannot be recovered in accordance with the basis terms, according to the margins between book value of cash flow in the future lower than its book value, the company should individual has an individual impairment test, then provision for bad debts.

Receivables belong to non-significant receivable, the company will put them together with unimpaired significant receivables which was been individual test, assembling them in accordance with similar accounting age, on the basis of former years actually ratio of losses, considering the current circs, making sure the ratio of each items provision for bad debts during this accounting year, according to all above, the company calculates the provision for bad debts of this term.

Provision for bad debts loss shall be made as follows:

Aging	Less than 1 year	1-2 years	2-3 years	Over 3 years
Bad Debts Percentage	0.5%	20%	60%	100%

## 8. Inventories

- 8.1 Classifying the sort of inventories

Inventories mainly include raw materials, work-in-process, finished products, goods in stock, low-value consumables and packaging materials.

- 8.2 Accounting method for procuring inventories

Raw materials including purchase price plus freight, lording, unloading charges as well as insurance premiums are stated at the cost; the cost of self-made semi-products and finished products including various expenditures actually incurred during production.

- 8.3 Accounting method for delivering inventories

The valuation of raw materials, self-made semi-products and finished products adopt a weighted-average basis when they are shipped and sold.



- 8.4 Low-value-consumables and packaging materials are expensed as incurred.
- 8.5 Accounting principal for inventories at the ending of balance, affirming standard and distilling method for provision impairment of inventories

Accounting method for inventories at the ending of balance reckons in accordance with the cost and recoverable net value, which is lower which is better. At the ending of the balance, on the basis of inspecting inventories, if the cost of inventories is higher than their recoverable amount as a result of been damaged, completely or partially obsolescent, or with a selling price lower than their cost, the company will calculate the part which will never been recovered and make a provision for inventories. The provisions for finished goods and large-amount raw materials are distilled on the basis of margins between signal inventories higher than their net receivable values .Other raw materials with great of quantities, lower unit price, those shall be distilled the provisions for impairment of inventories by categories.

- 8.6 Affirming method for inventories changing to net realizable value

Net realizable value of goods-in-stock, work-in-progress or held-for-sale raw materials shall be determined by their estimated sales misusing the related selling expenses and taxes. Net realisable for held-for-production raw materials shall be determined by the estimated selling price of the finished goods misusing the estimated cost until completion, selling expenses and taxes. Net realisable value of inventories held-for-contracts shall be determined by the carrying amount of the contracts. Net realisable value of inventories over the order of contracts shall be determined by the selling price.

## 9. Accounting method for Long-term Investments

### 9.1 Initial Measurement

The initial investment cost of a long-term equity investment acquired through a business combination involving an enterprise under common control shall be the absorbing party's share of the owners' equity of the party which being absorbed at the combination date, while the investment cost acquired through a business combination but not involving an enterprise under common control shall be the combination cost which contain assets given, liabilities incurred or assumed and equity securities issued as consideration of business combination on the acquisition date.

The initial investment cost of a long-term equity investment acquired otherwise than through a business combination shall be determined as follows: (a). for a long-term equity investment acquired by paying cash, the initial investment cost shall be the actual purchase price has been paid, that includes those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; (b). for a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued; (c). for a long-term equity investment contributed by an investor, the initial investment cost shall be the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair; (d). for a long-term equity investment acquired through an exchange of non-monetary assets or debt restricting transaction, the initial investment cost shall be determined in accordance with related standards in ASBEs.

### 9.2 Subsequent Measurement

Long-term equity investment to subsidiaries shall be accounted using the cost method and be adjusted when the Company prepares the consolidated financial statements. Long-term equity investment to joint ventures and associates shall be accounted for using the equity method; Long-term equity, which the Company does not have control, joint control or significant influence over the investee, the investment being not quoted in an active market even its fair value not having been reliably measured, all of them shall be accounted for using the cost method; long-term equity investment for which the Company does not have control, joint control or significant influence, without an investment which quoted in an active market or its fair value has not been reliably measured, shall be accounted as available-for-sale financial assets.



When the company adopts the cost method, long-term equity will be accounted in the initial cost, the invested income arising from current period just limiting the gains which getting from the distribution quota of its accumulative net profit after the investee receiving the investment; the profit or cash dividends exceeds all above details which getting from investee's distribution, of them will be recalled back, then deducting the face value of investment.

When the company adopts the beneficial method, the current investment gain or loss referring to the net gain or loss distributed quota which the investee should be on the responsibility of sharing or taking in current period. When the company affirms the net profit quota getting from investee, it should base on the investee's assets identification in fair value, then according to the company's accounting policies and accounting period, counteracting the parts the inner related dealings gain or loss in the light of holding shares quota arising from combine company and associated company, at last affirming the net profit of investee after adjusting.

When the company affirms the investee's net loss, it based on the limitation to misusing to zero for face value of long-term equity investment and others which virtually composing the investee's long term equity. Moreover, if the company has the obligation to taking the investee's extra loss, it will affirm the provision liabilities according to the obligation and reckoning in current gain or loss. The net profit getting from the others period for investee, after the company sharing the quota for recuperating, it will renew the income quota.

## 10. Fixed Assets

### 10.1 Affirming condition for fixed assets

Fixed assets refer to those tangible assets with useful lives of more than one accounting year, which are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. The fixed asset shall simultaneously meet conditions as, firstly it is probable that economic benefits associated with the assets will flow to the Company; and secondly the cost of the asset can be measured reliably.

### 10.2 Classifying sorts for fixed assets

Fixed assets include housing and buildings, machinery and equipment, vehicles and electronic apparatus.

### 10.3 Accounting method for fixed assets

Fixed assets shall be initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, related taxes and any directly attributable expenditure for bringing the assets to working condition for its intended use. The cost of self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use. The cost of a fixed asset contributed by an investor shall be determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair. The cost of a fixed assets acquired by finance lease shall be the lower of the fair value of the leased asset and the present value of the minimum lease payments at the commencement of the lease term.



#### 10.4 Depreciation method for fixed assets

Fixed assets (excluding those fully depreciated yet still used in operation) are depreciated on a straight-line basis with the estimated net residual value at 5%. Depreciation of a fixed asset shall be provided for monthly and, depending on the purpose for which the fixed asset is used, shall either be included as part of the cost of the relayed assets or recognised in profit or loss for the current period. The life and rate of depreciation for different classes of fixed assets are as follows:

Items	Useful lives (Years)	Annual Depreciation rate (%)
House & Buildings	20 Years	4.75
Machinery & equipment	10 Years	9.50
Electronic apparatus	5 Years	19.00
Office equipment and vehicles	5 Years	19.00

#### 10.5 Subsequent payout dealing for fixed assets

The subsequent expenditures of a fixed asset, which are mainly arising from repairs, improvement and fitments, shall be included in the cost of the fixed asset if the economic benefits associated with the expenditures can flow to the Company. While if not, the expenditures shall be recognised in profit or loss in the period in which they are incurred.

10.6 The company shall make a review and proper adjustments of the estimated useful life, estimated net residual value, and the depreciation method of the fixed assets at the end of each year. Any change shall be disclosed as changes of accounting estimates.

### 11. Construction-in-progress

#### 11.1 Accounting method for construction-in-progress

The cost of construction-in-progress is determined according to expenditures actually incurred. The cost of construction work undertaken by the Company itself is determined according to direct materials cost, direct labour cost, and direct construction expenses; the cost of construction work undertaken by third parties is determined according to amount paid to the contractor; and the cost of equipment installation construction is determined according to the cost of equipment, installation charges and test run expenses. Capitalised borrowing costs and exchange profit or loss should also be included in the related cost of construction-in-progress.

#### 11.2 The time spot for construction-in-progress turning in fixed assets

Construction-in-progress is transferred to fixed assets at the date of reaching its usable condition at an estimated amount based on the budget price, the amount paid to the contractor or actual cost of construction. The asset will depreciate from the second month after it is put into use. The estimated value of the asset and its accumulated depreciation is adjusted after going through the procedures for the final accounts of project completion.



## 12. Borrowing Cost

Borrowing cost includes borrowing interests, amortising of discount and overflow, assistant expenditures as well as differences margin from exchange. The capitalisation of borrowing costs can commence only when all of the following conditions are satisfied; expenditures for the asset are being incurred, borrowing costs are being incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months. Capitalisation of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale.

The Company shall determine the capitalised amount of interest as follows: where funds are borrowed under a specific-purpose borrowing for the acquisition, construction or production of a qualifying assets, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; where funds are borrowed under general-purpose borrowings and are utilised for the acquisition, construction or production of a qualifying asset, the Company shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the specific-purpose borrowings.

The assets which accordant the condition of capitalisation refers to the acts of construction and manufacture of fixed assets getting to sale, invested estate as well as inventories becoming used, which will take a long time (more than one year).

If capitalised assets are interrupted in the process of construction or manufacture, if the time is over three months, it will stop capitalising, until the construction and manufacture is renewed.

## 13. Intangible Assets

### 13.1 Accounting method for intangible assets:

The Company's intangible assets mainly contain land use right, software use right, non-patented technology, etc. The cost of a purchased intangible asset shall be determined by the expenditures actually incurred and other related costs. The cost of a intangible asset contributed by an investor shall be determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair.

### 13.2 Amortising method and the limitation for intangible assets:

The cost of land use right is amortised evenly over the whole period of the right. The cost of software use right and non-patented technology of the Company is amortised evenly over the amortisation period not longer than the shortest of the expected useful life, the beneficial period as specified in the contract or the useful life specified in the law, which is five years in the Company. The amortisation charge shall be recognised as the cost of an intangible asset or profit or loss for the current period by the object of benefit derived from the assets.

13.3 For an intangible asset with a finite useful life, the Company shall review the useful life and amortisation method at least at each financial year-end. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method shall be changed accordingly. For an intangible asset with an indefinite useful life, the Company shall reassess the useful life of the asset in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Company shall estimate the useful life of that asset and amortised accordingly.



#### 14. Research and Development

According to the nature of expenditures and uncertainty of the achievement, expenditure on an internal research and development project shall be classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase of an internal research and development project shall be recognised in the profit or loss for the period in which it is incurred. While expenditure on the development phase of that shall be recognised as an intangible asset when all the conditions could be satisfied as following: (a). the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b). the intention to complete the intangible asset and use or sell it; (c). there is a market for the output of the intangible asset or the intangible asset itself; (d). the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; (e). its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure in the development phase which fails to meet all the conditions above should be included in the profit or loss in the period in which it is incurred. The expenditure in the development phase which has been included in the profit or loss in the prior period could not be recognised as intangible asset. The capitalised expenditure in the development phase shall be recognised as an intangible asset when the asset gets ready for its intended use.

#### 15. Impairment for Non-financial Assets

The Company shall assess at each balance sheet date whether there is any indication that the following assets may be impaired, as long-term equity investment on subsidiaries, joint ventures and associates, fixed assets, construction-in-progress, intangible assets of finite useful life, etc. Goodwill and an intangible asset with an indefinite useful life shall be tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group or set of asset group to which the asset belongs.

If the recoverable amount of an asset is less than its carrying amount, the difference shall be recognised as an impairment loss. Once the impairment loss is recognised, it shall not be reversed in a subsequent period. Recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset.

The following are indications that an asset may be impaired: (a) during the period, asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; (b) significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, economic or legal environment etc. in which the Company operates or in the market to which an asset is dedicated; (c) market interest rates or other market rates of return on investments have increased during the period, and those increase are likely to affect the discount rate used in calculating the present value of an asset's expected future cash flows and decrease the assets recoverable amount materially; (d) evidence is available of obsolescence or physical damage of an asset; (e) an asset has become or is becoming idle, the Company discontinues using an asset or plans to dispose of an asset before the previously expected date; (f) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected, for example, the net cash flows generated or operating profit realized (or operating loss arising) from the asset are much less (or more) than the budgeted amounts; (g) other factors that indicate an asset may be impaired.





## 16. Goodwill

Goodwill refers to the difference at the acquisition date or purchasing date, which comes from the investment cost or cost of business combination not involving enterprises under common control, exceeds the acquirer's interest in the fair value of the investees' or acquirer's identifiable net assets.

Goodwill related with subsidiaries shall be separately presented in consolidated financial statements, while goodwill related with joint ventures and associates shall be included in carrying amount of long-term equity investment.

## 17. Employee Benefits

In the accounting period in which an employee has rendered service to the Company, the Company shall recognise the employee benefits payable as a liability and, except for compensation for termination of the employment relationship with employees be included in the profit or loss in the current period. Employee benefits shall be accounted as cost of related assets or charged to profit or loss for the current period according to the benefits derived from the employee service.

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, social security contributions, housing funds, union running costs, employee education costs, and other expenditures incurred in exchange for service rendered by employees.

## 18. Provision

### 18.1 Affirming principals for provision

An obligation related to a contingency, such as guarantees provided to outsiders, pending litigations or arbitrations, product warranties, redundancy plan, onerous contract, reconstructing, expected disposal of fixed assets, and etc. shall be recognised as a provision when all of the following conditions are satisfied: (a) the obligation is a present obligation of the Company; (b) it is probable that an outflow of economic benefits will be required to settle the obligation; (c) the amount of the obligation can be measured reliably.

### 18.2 Measurement method for provision

A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflows. The Company will review the carrying amount of a provision at the balance sheet date. Where there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount shall be adjusted to the current best estimate.

## 19. Revenue

The Company's revenue is mainly from sale of goods, rendering of services and use by others of enterprise assets. Revenue could only be recognised as the following conditions could be satisfied, that is the amount of revenue can be measured reliably and the associated economic benefit will flow into the Company, and for more details as follows:

### 19.1 Affirming method for income from sale

Revenue from the sale of goods shall be recognised only when all of the following conditions are satisfied: (a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the associated economic benefits will flow into the Company; and (e) the associated costs incurred or to be incurred can be measured reliably.



#### 19.2 Affirming method for income from service

Revenue from the rendering of services shall be recognised only when all of the following conditions are satisfied: the amount of revenue and costs incurred or to be incurred for the transaction involving the rendering of services can be measured reliably; the associated economic benefits can flow into the Company; and the stage of completion of the transaction can be measured reliably. When the transaction commenced and ended in one year, the revenue shall be recognised at the completion; when they are not in one year, the revenue shall be recognised in percentage of completion method at the balance sheet date if the outcome of the transaction can be estimated reliably. The percentage of completion shall be determined by the cost incurred and the estimated whole cost.

#### 19.3 Affirming method for income from releasing assets using right

Revenue from use by others of enterprise assets shall be recognised only when the associated economic benefit can flow into the Company, and the amount of revenue can be measured reliably.

### 20. Subsidies of government

Government subsidy at the Company be able to meet its attached conditions, and can be confirmed when received. Government grants for monetary assets, in accordance with the measurement of the amount actually received, according to a fixed quota for the allocation of the grant criteria, in accordance with the amount of accounts receivable measurement; government subsidies for non-monetary assets, in accordance with the fair value, fair value should not reliably achieved, in accordance with the notional amount (1 Yuan) measurement.

Asset-related government grants recognized as deferred income, and average life of related assets included in the current profit and loss distribution. With the proceeds of the relevant government subsidies to compensate for the period after the relevant costs or losses recognized as deferred income and, while recognizing the associated costs included in current period profit and loss; for compensation related costs that have occurred or loss, directly gains and losses included in the current period.

### 21. Deferred Tax Assets and Deferred Tax Liabilities

A deferred tax asset and deferred tax liability shall be determined by a difference (temporary difference) between the carrying amount of an asset or liability and its tax base. The deferred tax asset shall be recognised for the carry forward of unused deductible losses and tax credits to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised. At the balance sheet date, deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The Company shall recognise the corresponding deferred tax asset for deductible temporary differences as no higher than the taxable profits that will be available in the future, against which the temporary difference can be utilised. The Company shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred tax asset to be utilised. Any such reduction in amount shall be reversed to the extent that it becomes probable that sufficient taxable profits will be available.



## 22. Income Tax

The Company accounted the income tax in a method of debit in balance sheet. The income tax expenses include income tax in the current period and deferred income tax. The income tax associated with the events and transactions directly included in the owners' equity shall be included in the owners' equity; and the deferred income tax derived from business combination shall be included in the carrying amount of goodwill, except for that above, the income tax expense shall be included in the profit or loss in the current period.

The income tax expense in the current period refers to the tax payable, which is calculated according to the tax laws on the events and transactions incurred in the current period. The deferred income tax refers to the difference between the carrying amount and the deferred tax assets and deferred tax liabilities at the year-end recognised in the method of debit in the balance sheet.

## 23. Business Combination

Business combination refers to the event or transaction that the Company combines two or more separate enterprises as one reporting entity. The Company shall recognise the assets and liabilities derived from business combination at the combination date or acquisition date. A combination date or acquisition date is the date on which the Company effectively obtains control of the company being absorbed.

23.1 The assets and liabilities acquired through a business combination involving an enterprise under common control shall be measured by the acquirer according to the carrying amount recorded by the acquirer's at the combination date. The difference between the consideration of combination and the carrying amount of the acquired net assets shall be included in capital surplus, or it shall be included in retained earnings continuously if the capital surplus is not sufficient.

23.2 The cost of business combinations not involving an enterprise under common control is the aggregate of the fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference shall be recognised as goodwill, if not, the differences shall be included in the profit or loss in the current period.

## 24. Affirming of financial tool in fair value

Financial tool, which have being activity in the market will recognize its fair value in using quoted price from the market. If any does not belong to above, it will be affirmed at estimate Tec. Estimate Tec includes: the price getting from both dealing sides recently trading price; consulting the similar financial assets' fair in value, cash flow discounted and model of option evaluation and so on. When the company adopts the estimate Tec, it is better for them to use market parameter than the company's related parameter.

## 25. Basis of Preparation of Consolidated Financial Statements

25.1 Recognized principals of consolidated areas

The Company shall put subsidiaries which it controlling totally, main body with special purpose into consolidated financial statements.



## 25.2 Accounting method for Consolidated Financial Statements:

Consolidated financial statements have been prepared in accordance with the ASBEs No. 33-Consolidated Financial Statements and relevant supplementary regulations. All significant transactions and balances between the Company and its subsidiaries are eliminated for the purpose of consolidation. The equity of subsidiaries not held by the parent company shall be presented separately as minority shareholders' equity in consolidated shareholders' equity.

Any difference arising from the inconformity of accounting year or accounting policies between the subsidiaries and the Company shall be adjusted in the consolidated financial statements.

When preparing the consolidated financial statements, if the Company acquired the subsidiary through business combination not involving under common control, the separate financial statements shall be adjusted based on the fair value of identifiable net assets at the acquisition date. If the subsidiary is acquired through business combination involving common control, the consolidated financial statements shall include the carrying amount of assets, liabilities, operating result and cash flow of the subsidiary at the beginning of the current period.

## 6. TAXES

Major taxes and tax rates applicable to the Company are as follows:

### 1. Income tax

The company is a high-tech corporation, according to enterprise income tax law of China, after the company becomes a high-tech corporation, the company will receive favorable policies in the next three years, and be subject to an income tax rate of 15%.

The other subsidiaries of the Company are subject to 25% income tax except for Sino-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited and Zibo Xinhua-East west Pharmaceutical Company Limited which are in the tax-free term.

### 2. Value added tax

The Company is subject to value added tax for its sales revenues at a VAT rate of 17% or 13% for domestic sales and 0% for export sales.

In purchasing raw materials, the input VAT is deductible against output VAT at the rate of 17%.

The VAT payable for the period is the amount of output VAT less input VAT.

### 3. Business tax

Business tax is based on the design revenue, at a rate of 5%.

### 4. Urban maintenance & construction tax and educational surcharges

Urban maintenance & construction tax and educational surcharges are based on the sum of VAT payable and sales tax payable, at the rates of 7%, 3% and 1% respectively.

### 5. Property tax

Property tax is levied based on 70% of the original cost of the building property of the Company at a rate of 1.2%. The Company is subject to a 12% tax rate for rental income from leasing its building property.



## 7. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

### 1. Information about Subsidiaries

Company name	Registered address	Registered capital	Business Scope	Initial Investment	Holding Ratio (%)	Voting Ratio (%)
Shandong Xinhua Pharmaceutical Trade Company Limited	Zibo, Shandong	RMB48,498,900	Drug sales	RMB47,528,900	99.76	99.76
Shandong Xinhua Pharmaceutical Export & Import Company Limited	Zibo, Shandong	RMB5,000,000	Exporting & Importing of goods and technology, entrepot & counter trade	RMB3,000,000	99.52	99.52
Zibo Xinhua Pharmaceutical Design Institute Company Limited	Zibo, Shandong	RMB2,000,000	Pharmaceuticals project design	RMB1,800,000	90	90
Zibo Xinhua Drug Store Chain Company Limited	Zibo, Shandong	RMB2,000,000	Pharmaceutical retail	RMB1,760,000	88	88
Shandong Xinhua Pharmaceutical (European) GmbH	Hamburg, Germany	EURO650,000	Sales of bulk pharmaceuticals and etc.	EURO500,000	76.9	76.9
Zibo Xinhua-Eastwest Pharmaceutical Company Limited	Zibo, Shandong	USD1,500,000	Producing & sales of Polycarbophil materials	USD1,125,000	75	75
Sino-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited	Zibo, Shandong	USD6,000,000	Producing & sales of Ibuprofen materials	USD3,006,000	50.1	50.1
Xinhua Pharmaceutical (Shouguang) Company Limited	Shouguang, Shandong	RMB130,000,000	Production and sales of chemical products (excluded dangerous chemical)	RMB130,712,400	100	100

- 1) With a registered capital of RMB5 million, Shandong Xinhua Pharmaceutical Trade Company Limited (hereafter referred to as “Pharm. Trade”) was established on 30 August 2004 by the Company and Zibo Xinhua Drug Store Chain Company Limited (a majority-owned subsidiary of the Company), which hold 98% and 2% of the registered capital, respectively. In March 2005, the registered capital increased by 43,498,900, among which, 42,628,900 was contributed by the Company in tangible assets, and 870,000 was contributed by Zibo Xinhua Drug Store Chain Company Limited in cash. The share of equity interest held by each shareholder remains unchanged.
- 2) With a registered capital of RMB3,000,000, Shandong Xinhua Pharmaceutical Export & Import Company Limited (hereafter referred to as “Xinhua Export& Import”) was established on 15 May 2006 by Shandong Xinhua Pharmaceutical Trade Company Limited and Zibo Xinhua Drug Store Chain Company Limited, which hold 98% and 2% of the equity interests respectively. The registered capital was increased RMB2,000,000 to RMB5,000,000 in April 2009. The share of equity interest held by each shareholder remains unchanged. The principle operation of Xinhua Export& Import is exporting & importing of goods and technology, enter pot & counter trade.
- 3) With a registered capital of RMB2,000,000, Zibo Xinhua Pharmaceutical Design Institute (hereafter referred to as the “Design Institute”) was formed in March 2002 by the Company and Xinhua Pharmaceutical Group Company Limited, which hold 90% and 10% of the registered capital, respectively.
- 4) Zibo Xinhua Drug Store Chain Company Limited (the name was changed from Zibo Xinhua Drug Store Company Limited in December 2003, hereafter referred to the “Zibo Drug Store”) was incorporated in July, 1999 with the registered capital contributed by the Company and Xinhua Pharmaceutical Group Company Limited, which hold 88% and 12% of the equity interests, respectively. The original registered capital was RMB1,000,000 and it was increased to RMB2,000,000 in September 2002.



- 5) Shandong Xinhua Pharmaceutical (European) GmbH (hereafter referred to the “Xinhua European”) was established on 25 November 2003. It was jointly invested by the Company and Mr. LI PENG from Germany. The registered capital was Euro1 million. The Company holds 70% of the equity interests, while Mr. LI PENG owns 30%. This company was incorporated in Hamburg, Germany. This company’s reporting currency is the Euro. In July 2006, the registered capital of the Company was changed to EURO650,000 according to the resolution of the Board of Directors’ meeting, and the share of equity interest held by the Company and Mr. LI PENG was changed to 76.90% and 23.10% respectively.
- 6) With a registered capital of USD1.5 million, Zibo Xinhua-East west Pharmaceutical Company Limited (hereafter referred to as “Xinhua-East west”) was established on 15 November 2005 by the Company and Eastwest United Group, Inc., which hold 75% and 25% of the equity interests respectively, the principle operation of Zibo Xinhua-East west Pharmaceutical Company Limited is producing and sales of Calcium Polycarbophil materials. On 26 June 2006, the Company and East west United Group, Inc. injected USD1.125 million and USD0.375 million in cash respectively.
- 7) Sino-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited (hereafter referred to the “Xinhua-Perrigo”) was established by the Company and Perrigo International Inc. on 11 September 2003, a foreign invested joint company. With a registered capital of USD6 million, each party holds 50% of equity interests. On 3 April 2006, Perrigo International Inc. transferred 0.1% shares of Xinhua-Perrigo to the Company with a consideration of USD6,000 according to the Mending Agreement of Joint Venture. The transaction was approved by Bureau of Economic Development in Zibo New & high-tech Industrial Development Zone. The Company held 50.1% shares of Xinhua-Perrigo after the transaction.
- 8) Xinhua Phar (Shouguang) Company Limited, previously named Shandong Dadi Xinhua chemical & industrial company (hereafter referred to the Xinhua Shouguang) was established with the registered capital of RMB26,000,000 by the Company and Shandong Dadi Salt Chemical Group Company Limited on 12 September 2006. The Company contributes RMB12,740,000, accounting for 49% of the registered capital. The Company injected RMB6,000,000 more to Dadi Xinhua and increased its capital to RMB32,000,000 in November 2007. The Company held 58.56% of its shares. In 2008, the company purchased the whole shares from Shandong Dadi salt group, the total value worth RMB13,972,368, and changed Dadi Xinhua’s name to Xinhua Phar (Shouguang) company limited, moreover, the company increased the capital of RMB48,000,000 to Xinhua Shouguang. After increasing the capital, the registered capital of Xinhua Shouguang is worth of RMB80,000,000, and it becomes the company’s total subsidiary company. In December 2008, the company planned to increase the capital by of RMB50,000,000 and at the end of 2008, the company has paid RMB50,000,000, the total paid-up capital of Xinhua Shouguang is worth RMB130,000,000. The main business of Dadi Xinhua includes production and sale of chemical products (excluded dangerous and poisonous chemical).



## 8. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash & Cash equivalents

Item	2009.6.30			2008.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
Cash on Hand			122			168
Including: USD	2	6.8319	14	5	6.8346	37
EURO	3	9.6408	32	4	9.6590	41
HKD	23	0.8815	20	31	0.8819	27
JPY	351	0.0711	25	351	0.0757	27
Cash in Bank			238,857			178,119
Including: USD	8,626	6.8319	58,932	9,956	6.8346	68,045
EURO	348	9.6408	2,089	202	9.6590	1,948
Other Fund			71,067	—		59,837
Total	—	—	310,046	—	—	238,124

At 30 June 2009, other funds included bank acceptance deposit of RMB47,597,000, dividend of RMB5,631,000 and deposit for loans of RMB17,800,000.

### 2. Notes Receivable

Item	2009.6.30	2008.12.31
Bank acceptance	137,718	82,744



### 3. Accounts Receivable

#### (1) Risk Classification of Accounts Receivable

Item	2009.6.30			2008.12.31		
	Amount	Ratio (%)	Bad debts Provision	Amount	Ratio (%)	Bad debts Provision
Individually significant accounts receivable	106,975	41.52	222	72,541	33.23	179
Individually non-significant accounts receivable	150,688	58.48	11,319	145,735	66.77	11,319
Total	<u>257,663</u>	<u>100.00</u>	<u>11,541</u>	<u>218,276</u>	<u>100.00</u>	<u>11,498</u>

Individually significant accounts receivable referred to as individual accounts receivable with an amount over RMB5,000,000. The provision for bad debts has been made on aging basis as no impairment of individually significant accounts receivable was found after the assessing.

#### (2) Aging Analysis

Item	2009.6.30			2008.12.31		
	Amount	Ratio (%)	Bad debts Provision	Amount	Ratio (%)	Bad debts Provision
Less than 1 year	207,556	80.55	917	176,043	80.65	874
1 to 2 years	12,342	4.79	547	7,244	3.32	547
2 to 3 years	5,665	2.20	1,485	17,148	7.86	1,485
Over 3 years	32,100	12.46	8,592	17,841	8.17	8,592
Total	<u>257,663</u>	<u>100.00</u>	<u>11,541</u>	<u>218,276</u>	<u>100.00</u>	<u>11,498</u>

- (3) The provision system for bad debts can be seen above Notes 5.7. The Company recovered of RMB430,000 of the previous written-off accounts receivable in this period.
- (4) In the ending balance, there is no account receivable due from shareholders who hold 5% or more of the Company's voting capital.
- (5) The balance of accounts receivable due from the top five debtors is RMB88,790,000, accounting for 34.46% of the total balance of accounts receivable.
- (6) The balance of accounts receivables due from the related parties is RMB37,059,000, accounting for 14.38% of the total balance of accounts receivable.





(7) The ending balance of accounts receivable expressed in the foreign currency is as follows:

Item	2009.6.30			2008.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	19,297	6.8319	132,645	16,924	6.8346	115,671
EURO	1,231	9.6408	11,863	1,373	9.6590	13,263
Total	—	—	144,508	—	—	128,934

#### 4. Advances to Suppliers

Item	2009.6.30		2008.12.31	
	Amount	Ratio %	Amount	Ratio %
Less than 1 year	44,293	99.53	34,878	97.25
1 to 2 years	209	0.47	987	2.75
Total	44,502	100.00	35,865	100.00

(1) Advance payments aged over one year yet still not recovered are mainly payments for materials pending settlement.

(2) The significant company of advance to supplier

Item	The relationship to the company	Amount	Term	Character of the account
Shouguang Houzhen project areas	No	15,000	Less than one year	Payment for land

(3) At 30 June 2009, the advances the top five suppliers are RMB31,809,000, accounting for 71.48% of advances to suppliers.

(4) The ending balance of advance payments does not have any advance payment due from shareholders who hold 5% or more of the Company's voting capital.



## 5. Other Receivable

### (1) Risk Classification of Other Receivable

Item	2009.6.30			2008.12.31		
	Amount	Ratio (%)	Bad debts Provision	Amount	Ratio (%)	Bad debts Provision
Individually significant other receivable	13,224	48.06	6,196	6,196	26.87	6,196
Individually non-significant other receivable	14,290	51.94	1,240	16,863	73.13	1,240
<b>Total</b>	<b>27,514</b>	<b>100.00</b>	<b>7,436</b>	<b>23,059</b>	<b>100.00</b>	<b>7,436</b>

Individually significant other receivable referred to as individual other receivable with an amount over RMB5,000,000. Provision for bad debts has been made and there was impairment of RMB6,196,000. The provision for bad debts has been made on aging basis as no impairment of individually significant other receivable was found after the assessing.

### (2) Aging Analysis

Item	2009.6.30			2008.12.31		
	Amount	Ratio (%)	Bad debts Provision	Amount	Ratio (%)	Bad debts Provision
Less than 1 year	19,221	69.86	42	14,600	63.32	42
1 to 2 years	717	2.60	74	1,075	4.66	74
2 to 3 years	194	0.70	113	177	0.77	113
Over 3 years	7,382	26.84	7,207	7,207	31.25	7,207
<b>Total</b>	<b>27,514</b>	<b>100.00</b>	<b>7,436</b>	<b>23,059</b>	<b>100.00</b>	<b>7,436</b>

- (3) The provision system for bad debts can be seen above Notes 5.7.
- (4) The ending balance of other receivable include deductible input VAT, output VAT for exporting before applying to customs. No bad debts provision is made on these items.
- (5) In the ending balance, there is no other receivable due from shareholders who hold 5% or more of the Company's voting capital.
- (6) The balance of other receivable due from the top five debtors is RMB16,674,000, accounting for 60.60% of the total balance of other receivable.
- (7) The balance of other receivable due from the related parties is RMB45,000, accounting for 0.16% of the total balance of other receivable.



(8) The ending balance of other receivable expressed in foreign currency is as follows:

Item	2009.6.30			2008.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
EURO	<u>59</u>	<u>9.6408</u>	<u>567</u>	<u>97</u>	<u>9.6590</u>	<u>933</u>

## 6. Inventories

Item	2009.6.30		2008.12.31	
	Balance	Provision for impairment	Balance	Provision for impairment
Raw material	59,586	248	38,515	248
Work-in-progress	26,626	774	83,415	774
Goods-in-stock	154,509	8,562	177,531	8,562
Low-value consumables	12,735	—	13,274	—
Special materials for Government	<u>1,905</u>	<u>—</u>	<u>1,363</u>	<u>—</u>
Total	<u>255,361</u>	<u>9,584</u>	<u>314,098</u>	<u>9,584</u>

## 7. Available-for-sale Financial Assets

Item	2009.6.30	2008.12.31
Equity of Ruiheng Pharmaceutical & Technology Investment Company Limited	3,200	3,200
Legal-person share of Bank of Communications	67,323	35,417
Legal-person share of Pacific Insurance Company Limited	111,900	55,600
Equity of Tiantong Securities Company Limited	30,000	30,000
ShanXi media communication Company Limited	384	280
Nanjing Mediations Company Limited	<u>375</u>	<u>270</u>
Total	<u>213,182</u>	<u>124,767</u>
Impairment of available-for-sale financial assets	30,000	30,000
Including: Impairment on Equity of Tiantong Securities Company Limited	<u>30,000</u>	<u>30,000</u>
Net value of available-for-sale financial assets	<u>183,182</u>	<u>94,767</u>

The ending balance of available-for-sale financial assets has declined greatly, mainly due to the market price of shares of Bank of Communications and Pacific Insurance Company Limited in fair value rising more compared with the beginning of 2009.



## 8. Long-term Equity Investment

### (1) Long-term Equity Investment

Item	2009.6.30	2008.12.31
Accounted in cost method	—	—
Accounted in equity method	<u>28,718</u>	<u>27,489</u>
Total long-term equity investment	<u>28,718</u>	<u>27,489</u>
Less: Impairment of Long-term equity investment	—	—
Net value of Long-term equity investment	<u>28,718</u>	<u>27,489</u>

### (2) Accounted in Equity Method

Name of investee	Holding Ratio (%)	Voting right ratio (%)	Original Cost	Balance in 2008.12.31	Addition	Deduction	Balance in 2009.6.30	Dividends received in this period
Accounted in equity method								
1. Shandong Xinhua Longxin Chemical & Industrial Company Limited	40	40	10,000	9,843	570	—	10,413	—
2. Shandong Xinhua Changxing Chemical Equipment Company Limited	35	35	7,700	3,536	689	—	4,225	—
3. Shandong Zibo XinCat Pharmaceutical Company Limited	20	20	10,179	14,110	2,520	2,550	14,080	2,550
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>27,489</u>	<u>3,779</u>	<u>2,550</u>	<u>28,718</u>	<u>2,550</u>

### (3) Impairment on Long-term Equity Investment

No provision for impairment is made and no evidence indicates any impairment of long-term equity investment at the end of the period.

### (4) There is no significant restriction on the Company to dispose the long-term equity investments.

**9. Fixed Assets**

## (1) Details of fixed assets

Item	Houses & Buildings	Machinery & Equipment	Vehicles	Electronic Apparatus	Total
<b>Original cost at beginning of year</b>	574,829	1,295,669	17,846	28,954	1,917,298
Add: Increases in this period	21,212	44,433	1,919	1,347	68,911
Including: Construction-in-progress transferred in	18,280	28,297	—	21	46,598
Less: Decreases in this period	13,522	33,326	538	529	47,915
<b>Cost at 2009.6.30</b>	582,519	1,306,776	19,227	29,772	1,938,294
<b>Accumulated depreciation at beginning of year</b>	232,374	694,133	13,221	21,717	961,445
Add: Increases in this period	12,228	43,769	832	1,261	58,090
Less: Decrease in this period	11,081	34,247	511	529	46,368
<b>Accumulated depreciation at 2009.6.30</b>	233,521	703,655	13,542	22,449	973,167
<b>Provision for impairment at beginning of year</b>	—	—	—	—	—
Add: Increases in this period	—	—	—	—	—
Reversed in this period	—	—	—	—	—
Less: Other decrease in this period	—	—	—	—	—
<b>Provision for impairment at 2009.6.30</b>	—	—	—	—	—
<b>Net value</b>					
Net value at 2008.12.31	342,455	601,536	4,625	7,237	955,853
Net value at 2009.6.30	348,998	603,121	5,685	7,323	965,127



## 10. Construction-in-progress

### (1) Detailed list of construction in progress

Projects	Budget	Beginning balance	Addition	Transfer to fixed assets	Other deduction	Ending balance	Source of fund	Investment accounts for the budget (%)
Xinhua (West) Intel' Building	—	5,659	—	—	130	5,529	Own	—
Xinhua (East) Intel' Building	—	885	—	443	217	225	Own	—
Innovation Park-Xinhua Building	71,400	8,088	3,519	—	—	11,607	Own	16.26
Innovation Park-annexed	14,800	2,732	1,038	—	—	3,770	Own	25.47
Innovation Park-scientific research center 1#	13,200	3,605	559	—	—	4,164	Own	31.55
Innovation Park-scientific research center 2#	15,700	3,703	752	—	—	4,455	Own	28.38
Xinhua Shouguang east industry zone third project	46,854	30,613	27,673	41,418	1,931	14,937	Own	31.88
Hutian zone	—	—	31,000	—	—	31,000	Own	—
Others	—	32,921	9,914	4,737	—	38,098	Own	—
<b>Total</b>	<b>—</b>	<b>88,206</b>	<b>74,455</b>	<b>46,598</b>	<b>2,278</b>	<b>113,785</b>		
Include: Capitalized borrowing expense	—	—	—	—	—	—		

(2) No provision for impairment is made and no evidence indicates any impairment of construction-in-progress at the end of the period.

**11. Intangible Assets**

## (1) Details of Intangible Assets

Item	Land use right	Software use right	Non-patented technology	Total
<b>Original cost</b>				
at beginning of year	131,397	3,192	6,558	141,147
Add: Increases in this period	—	33	—	33
Less: Decreases in this period	—	—	—	—
<b>Cost at 2009.6.30</b>	<b><u>131,397</u></b>	<b><u>3,225</u></b>	<b><u>6,558</u></b>	<b><u>141,180</u></b>
<b>Accumulated amortisation</b>				
at beginning of year	22,488	2,155	5,766	30,409
Add: Increases in this period	1,512	207	500	2,219
Less: Decrease in this period	—	—	—	—
<b>Accumulated amortisation at 2009.6.30</b>	<b><u>24,000</u></b>	<b><u>2,362</u></b>	<b><u>6,266</u></b>	<b><u>32,628</u></b>
<b>Book Value</b>				
Net value at 2008.12.31	<u>108,909</u>	<u>1,037</u>	<u>792</u>	<u>110,738</u>
Net value at 2009.6.30	<u>107,397</u>	<u>863</u>	<u>292</u>	<u>108,552</u>

(2) No provision for impairment is made and no evidence indicates any impairment of intangible assets at 30 June 2009.

**12. Deferred Tax Assets**

## (1) Recognised deferred tax assets

Item	2009.6.30	2008.12.31
Deferred Tax Assets from deductible temporary difference	<u>1,004</u>	<u>1,031</u>

## (2) Deductible temporary difference of deferred tax assets at the ending balance

Items of deductible temporary difference	2009.6.30	2008.12.31
Provision for impairment of available-for-sale financial assets	194	299
Provision for impairment of receivables	3,488	3,488
Provision for impairment of inventories	<u>336</u>	<u>336</u>
Total	<u>4,018</u>	<u>4,123</u>
Tax rate	25%	25%
Deferred Tax Assets	<u>1,004</u>	<u>1,031</u>



### 13. Short-term Loans

- (1) Listing in the sort of current system

<b>Item</b>	<b>2009.6.30</b>	2008.12.31
RMB	<b>234,987</b>	240,380
HK	<b>44,077</b>	44,095
Total	<b><u>279,064</u></b>	<b><u>284,475</u></b>

- (2) Listing in the condition of loans

<b>Item</b>	<b>2009.6.30</b>	2008.12.31
Credit borrowing	<b>51,433</b>	136,457
Secured borrowing	<b>210,000</b>	130,000
Impawned borrowing	<b>17,631</b>	18,018
Total	<b><u>279,064</u></b>	<b><u>284,475</u></b>

- (3) The secured borrowing was secured by Shandong Xinhua Phar group and Shandong Hualu holding Group Company, the details can be seen on notes 10, 2 & 4. Guaranty secured.
- (4) The impawned borrowing of RMB17,631,000 mostly comes from the Commercial Bank of Nan yang, the impawned matter is borrowing securities which were worth RMB17,800,000.

### 14. Held-for trade financial liabilities

<b>Item</b>	<b>Fair Value on 2009.6.30</b>	Fair Value on 2008.12.31
Derived financial liabilities	<b><u>692</u></b>	<b><u>7,591</u></b>

Held-for-trading financial liabilities referred to the United States Dollar forward contracts. The Company entered into forward contracts denominated in USD for the settlement of exchange of exportation. There is no significant restriction on the returns of investment.

### 15. Notes Payable

<b>Item</b>	<b>2009.6.30</b>	2008.12.31
Bank acceptance	<b><u>155,086</u></b>	<b><u>121,266</u></b>

The maturity date of notes payable is from 21 July 2009 to 25 December 2009.



**16. Accounts Payable**

	<b>2009.6.30</b>	2008.12.31
Accounts payable	<b>143,358</b>	133,824
Including: More than one year	<b><u>8,781</u></b>	<u>8,201</u>

- (1) The ending balance of accounts payable does not have any amount due to the shareholders who hold 5% or more of the Company's voting capital.
- (2) Accounts payable aged over one year were unsettled payments for raw materials.
- (3) The ending balance of accounts payable expressed in foreign currency is as follows:

Item	2009.6.30			2008.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	—	<b>6.8319</b>	—	—	6.8346	—
EURO	77	<b>9.6408</b>	<u>744</u>	1,373	9.6590	<u>13,266</u>
Total			<b><u>744</u></b>			<u>13,266</u>

**17. Advances from Customers**

	<b>2009.6.30</b>	2008.12.31
Advances from customers	<b>14,451</b>	6,936
Within One Year	<b><u>1,391</u></b>	<u>1,481</u>

- (1) The ending balance of advances from customers does not have any amount due to the shareholders who hold 5% or more of the Company's voting capital.
- (2) The advance from customers aged over one year was unsettled petty expense.
- (3) The ending balance of advances from customers expressed in foreign currency is as follows

Item	2009.6.30			2008.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	<u>464</u>	<u>6.8319</u>	<u>3,173</u>	<u>77</u>	<u>6.8346</u>	<u>529</u>



## 18. Employee Benefits Payable

Item	2008.12.31	Additions	Payment	2009.6.30
Salaries(including bonuses, allowance and subsidies)	—	68,492	68,492	—
Staff welfare	—	54	54	—
Social securities	—	20,169	20,169	—
Including: 1. Medical insurance	—	4,194	4,194	—
2. Pension insurance	—	13,896	13,896	—
3. Unemployment insurance	—	1,055	1,055	—
4. Work injury insurance	—	589	589	—
5. Maternity insurance	—	435	435	—
Housing funds	1,073	7,607	8,264	416
Union running costs and employee education costs	14,517	1,440	1,820	14,137
Directors' and Supervisors' remuneration	460	—	139	321
Compensation for relieve labor relations	—	77	77	—
Other	16,147	2,664	9,837	8,974
Including: Stock-based payment settled in cash	—	—	—	—
<b>Total</b>	<b>32,197</b>	<b>100,503</b>	<b>108,852</b>	<b>23,848</b>

## 19. Tax Payables

Item	Applicable tax rates	2009.6.30	2008.12.31
Value added tax		1,541	(645)
Business tax	3%, 5%	29	39
Urban maintenance & construction tax	7%	779	272
Income tax	15%, 25%	4,401	(2,238)
Payroll tax		132	89
Property tax	1.20%	1,010	987
Land VAT		1,640	1,640
Stamp tax		109	154
Educational surcharges	3%, 1%	446	155
<b>Total</b>		<b>10,087</b>	<b>453</b>

**20. Dividends Payable**

Item	2009.6.30	2008.12.31
Shandong Dadi Salt Chemical Group Company Limited	4,898	—
Others	9,647	5,325
Total	<u>14,545</u>	<u>5,325</u>

**21. Other Payable**

Item	2009.6.30	2008.12.31
Other payable	97,018	78,459
Including: Within one year	<u>8,180</u>	<u>8,246</u>

- (1) At 30 June 2009, other payables do not have any amount due to the shareholders who hold 5% or more of the Company's voting capital.
- (2) Other payables aged over one year in the ending balance was mainly unsettled payment of constructions.
- (3) The ending balance of other payables expressed in foreign currency is as follows:

Item	2009.6.30			2008.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	—	6.8319	—	26	6.8346	176
EURO	5	9.6408	47	32	9.6590	309
Total			<u>47</u>			<u>485</u>

**22. Long-term Loans**

Item	2009.6.30	2008.12.31
Credit borrowing	<u>60,000</u>	—
Total	<u>60,000</u>	<u>—</u>

- (1) The Long-term Loan is RMB60,000,000 from Agricultural Bank of China Zibo Branch, the term is three years, annual rate is 5.04%.

**23. Deferred Tax Liabilities**

- (1) Recognised deferred tax liabilities

Item	2009.6.30	2008.12.31
Income tax from taxable temporary difference	<u>14,900</u>	<u>650</u>



(2) Deductible temporary difference of deferred tax liabilities at the ending balance

<b>Items of taxable temporary difference</b>	<b>2009.6.30</b>	2008.12.31
Change of fair value of Held-for trade financial assets	<b>157,918</b>	69,608
Subtotal	<u><b>157,918</b></u>	<u>69,608</u>
<b>Detaining temporary difference items</b>		
Change of fair value of parent company advisable for sale financial assets	<b>692</b>	7,379
Prepared impairment of held-for sale financial assets for parent company	<b>30,000</b>	30,000
Prepared for bad debts balance of parent company	<b>15,277</b>	15,277
Prepared for impairment of inventories balance of parent company	<b>8,297</b>	8,297
Associated corporation Investment loss of the parent company	<b>4,321</b>	4,321
Subtotal	<u><b>58,587</b></u>	<u>65,274</u>
The net value after counteracting for rate paying temperate difference to detaining temperate difference	<b>99,331</b>	4,334
Tax rate	<b>15%</b>	15%
Deferred tax liabilities	<u><b>14,900</b></u>	<u>650</u>



## 24. Share Capital

Item	Accounts at the beginning of the term		Changes in this term				Accounts at the ending of the term		
	Amounts	Ratio	Issuing new share	Sending share	Accumulated capitals turn to share	Others	Subtotal	Amounts	Ratio
<b>Conditional tradable shares</b>									
State-held shares	163,259	35.70%						163,259	35.70%
State-owned legal-person held shares									
Domestic-funded-held shares	24,550	5.37%						24,550	5.37%
Including: Domestic legal-person held shares	24,527	5.36%						24,527	5.36%
Domestic natural person held shares	23	0.01%						23	0.01%
Foreign-funded-held shares									
Including: Foreign legal-person held shares									
Foreign natural person held shares									
<b>Sub-total</b>	<b>187,809</b>	<b>41.07%</b>						<b>187,809</b>	<b>41.07%</b>
<b>Unconditional tradable shares</b>									
Domestically listed RMB A shares	119,504	26.13%						119,504	26.13%
Domestically listed foreign invested shares									
Overseas listed foreign invested H shares	150,000	32.80%						150,000	32.80%
Others									
<b>Sub-total</b>	<b>269,504</b>	<b>58.93%</b>						<b>269,504</b>	<b>58.93%</b>
<b>Total stock</b>	<b>457,313</b>	<b>100.00%</b>						<b>457,313</b>	<b>100.00%</b>

## 25. Capital Surplus

Item	2008.12.31	Additions	Deductions	2009.6.30
Upward revaluation of assets	60,910	—	—	60,910
Premium of stock	496,492	—	—	496,492
Receipt of donation	1,158	—	—	1,158
Others	58,943	75,142	—	134,085
<b>Total</b>	<b>617,503</b>	<b>75,142</b>	<b>—</b>	<b>692,645</b>

- (1) Others capital surplus mainly accounting for the change in fair value of available-for-sale financial assets, which were legal-person held shares of Bank of Communications and Pacific Insurance Company Limited.
- (2) The ending balance of capital surplus has increased much, mainly due to the fair in value of Bank of Communications and Pacific Insurance Company Limited rising in this period.



## 26. Surplus Reserves

Item	2008.12.31	Additions	Deductions	2009.6.30
Statutory surplus reserves	102,513	—	—	102,513
Discretionary surplus reserve	64,797	—	—	64,797
Total	<u>167,310</u>	<u>—</u>	<u>—</u>	<u>167,310</u>

## 27. Undistributed profit

Item	2009.6.30	2008.12.31
Undistributed profit at beginning of the year	210,691	193,497
Add: Adjustment to the undistributed profit at beginning of the year	—	—
Add: Net profit of the year	39,887	33,965
Less: Appropriation of statutory surplus reserve	—	3,052
Dividends payable on common stock	13,719	13,719
Other	132	—
Undistributed profit at the end of the year	<u>236,727</u>	<u>210,691</u>
Including: Dividend in cash to be distributed	<u>—</u>	<u>13,719</u>

## 28. Minority Interest

Name	Ratio of equity interests	2009.6.30	2008.12.31
Shandong Xinhua Pharmaceutical Group Company Limited	10%	60	49
Shandong Xinhua Pharmaceutical Group Company Limited	12%	393	332
LI PENG	23.1%	747	790
Eastwest United Group, INC	25%	3,212	3,434
Perrigo Asia Holding Company	49.9%	29,164	29,140
Total	—	<u>33,576</u>	<u>33,745</u>

**29. Operating Income and Cost**

## (1) Operating Income and Cost

<b>Item</b>	<b>2009.1-6</b>	<b>2008.1-6</b>
Income from main operation	<b>1,174,980</b>	1,119,148
Income from other operation	<b>21,812</b>	21,505
<b>Sub-total</b>	<b><u>1,196,792</u></b>	<b><u>1,140,653</u></b>
Sales to top 5 customers	<b>180,818</b>	163,819
Accounting of the total sales	<b>15.39%</b>	14.64%
Cost from main operation	<b>952,349</b>	961,484
Cost from other operation	<b>24,124</b>	20,738
<b>Sub-total</b>	<b><u>976,473</u></b>	<b><u>982,222</u></b>

## (2) Income and Cost from Main Operation-Listed by Products

<b>Item</b>	<b>2009.1-6</b>	<b>2008.1-6</b>
<b>Income from main operation</b>		
Bulk Pharmaceuticals	<b>614,065</b>	677,674
Including: Export sales	<b>422,011</b>	477,489
Preparations	<b>244,635</b>	203,768
Commerce circulations	<b>314,381</b>	231,913
Chemical and others	<b>1,899</b>	5,793
Total	<b><u>1,174,980</u></b>	<b><u>1,119,148</u></b>
<b>Cost from main operation</b>		
Bulk Pharmaceuticals	<b>464,975</b>	587,752
Including: Export sales	<b>324,413</b>	418,127
Preparations	<b>179,124</b>	145,742
Commerce circulations	<b>306,952</b>	224,807
Chemical and others	<b>1,298</b>	3,183
Total	<b><u>952,349</u></b>	<b><u>961,484</u></b>
<b>Gross margin from main operation</b>		
Bulk Pharmaceuticals	<b>149,090</b>	89,922
Including: Export sales	<b>97,598</b>	59,362
Preparations	<b>65,511</b>	58,026
Commerce circulations	<b>7,429</b>	7,106
Chemical and others	<b>601</b>	2,610
Total	<b><u>222,631</u></b>	<b><u>157,664</u></b>

**30. Taxes and Surcharges**

Item	Base of computation	Tax rate	2009.1-6	2008.1-6
Business tax	Design revenue	5%	32	137
Urban maintenance & construction tax	VAT	7%	4,392	3,016
Educational surcharges	VAT	4%	2,509	1,726
Total			<u>6,933</u>	<u>4,879</u>

**31. Financial Expenses**

Item	2009.1-6	2008.1-6
Interest expenses	7,541	6,918
Less: interest income	467	934
Add: exchange loss	7,490	(4,455)
Add: commission charges	424	427
Add: others	299	(764)
Total	<u>15,287</u>	<u>1,192</u>

During this report period, financial expenses increased due to long-term exchange loss increased.

**32. Impairment Loss of Assets**

Item	2009.1-6	2008.1-6
Impairment loss of bad debts	—	19
Total	<u>—</u>	<u>19</u>

**33. Gain or Loss from changes in fair value**

Item	2009.1-6	2008.1-6
Gain or loss from changes in fair value	6,899	(13,635)
Total	<u>6,899</u>	<u>(13,635)</u>





# FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

## 34. Investment Gain or Loss

Sources of Investment gain or loss	2009.1-6	2008.1-6
Long-term equity investment income accounting in beneficial method	3,823	556
The income gaining from the term holding the held-for trade financial assets	2,249	651
The income getting from treating the long-term equity investment	—	479
Total	<u>6,072</u>	<u>1,686</u>

There is no significant restriction on the returns of investment income.

## 35. Non-operating Income

Item	2009.1-6	2008.1-6
Proceeds from disposal of non-current assets	276	602
Government Subsidies	483	—
Income from penalties	89	352
Others	63	197
Total	<u>911</u>	<u>1,151</u>

## 36. Non-operating Expense

Item	2009.1-6	2008.1-6
Loss from disposal of non-current assets	5,174	147
Donations for commonweal	—	501
Overdue fines and penalties	200	406
Others	2,894	1,058
Total	<u>8,268</u>	<u>2,112</u>

## 37. Income Tax Expenses

Item	2009.1-6	2008.1-6
Income tax expenses in current period	7,834	8,696
Deferred income tax expenses	1,003	—
Total	<u>8,837</u>	<u>8,696</u>



### 38. Cash Flow Statement

#### (1) Cash and its equivalents presented in cash flow statement

<b>Item</b>	<b>2009.6.30</b>	<b>2008.12.31</b>
Cash	<b>244,649</b>	183,667
Including: Cash in hand	<b>122</b>	2,115
Bank deposit available for payment at any moment	<b>238,857</b>	176,173
Other funds available for payment at any moment	<b>5,670</b>	5,379
Cash equivalents		
Including: debt investment with a maturity of 3 months	<b>—</b>	—
Ending balance of cash and equivalents	<b>244,649</b>	183,667
Including: cash and equivalents restricted to use by parent company or subsidiaries in the Group.	<b>—</b>	—

#### (2) Other Cash Received/Paid Relating to Operating Activities

##### 1) Other Cash Received Relating to Operating Activities

<b>Item</b>	<b>2009.1-6</b>	<b>2008.1-6</b>
Interest income	<b>467</b>	934
Subsidies income	<b>483</b>	—
Long-term exchange income	<b>—</b>	14,232
Guarantee cash	<b>3,511</b>	3,116
Other	<b>5,539</b>	2,540
Total	<b>10,000</b>	20,822

##### 2) Other Cash Paid Relating to Operating Activities

<b>Item</b>	<b>2009.1-6</b>	<b>2008.1-6</b>
Office expenses	<b>1,488</b>	1,195
Travel expenses	<b>6,402</b>	4,326
Annual listing fee, audit fee and advisory fee	<b>1,926</b>	1,638
Sewage discharge fees	<b>400</b>	2,285
Advertising and marketing expenses	<b>24,662</b>	19,537
Freight charges	<b>13,038</b>	19,545
Entertainment expenses	<b>1,843</b>	1,411
Research and development expenses	<b>9,656</b>	5,692
Bank acceptance bills of exchange	<b>10,939</b>	13,809
Exchange loss	<b>7,490</b>	—
Others	<b>12,293</b>	24,195
Total	<b>90,137</b>	93,633



# FINANCIAL REPORT

(PREPARED UNDER PRC ACCOUNTING STANDARDS)

## (3) Supplementary Information to Consolidated Cash Flow Statement

Item	2009.1-6	2008.1-6
1. Reconciliation of net income to cash flows from operating activities		
Net profit	39,887	20,457
Add: Income/Loss of minority	1,960	1,415
Provisions for assets impairment	—	19
Depreciation of fixed assets, depreciation of oil assets and depreciation of biological assets	58,090	53,882
Amortisation of intangible assets	2,219	2,282
Amortisation of long-term prepayments	—	—
Losses on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)	4,898	(455)
Losses on fixed assets scrapped	—	—
Losses from changes in fair value (or deduct: gains)	(6,899)	13,635
Financial expense (or deduct: gains)	7,541	1,192
Investment loss (or deduct: gains)	(6,072)	(1,686)
Decrease in deferred tax assets (or deduct: gains)	26	—
Increase in deferred tax liabilities (or deduct: gains)	14,249	—
Decrease in inventories (or deduct: gains)	58,737	15,767
Decrease in operating receivables (or deduct: gains)	(107,409)	(78,061)
Increase in operating payables (or deduct: gains)	54,507	15,533
Other	—	—
<b>Net cash flows from operating activities</b>	<b>121,734</b>	<b>43,980</b>
2. Significant investing and financing activities not involving cash receipt or payment:		
Conversion of a debts to capital	—	—
Convertible bonds due within one year	—	—
Financial lease-in fixed assets	—	—
3. Changes in cash and cash equivalents:		
Ending balance of cash	244,649	181,967
Less: beginning balance of cash	183,667	199,833
<b>Net increase of cash and cash equivalents</b>	<b>60,982</b>	<b>(17,866)</b>



## 9. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

### 1. Accounts Receivable

#### (1) Risk Classification of Accounts Receivable

Item	2009.6.30			2008.12.31		
	Amount	Ratio %	Bad debts Provision	Amount	Ratio %	Bad debts Provision
Individually significant accounts receivable	202,604	70.46	179	72,541	27.34	179
Individually non-significant accounts receivable	84,937	29.54	8,230	192,794	72.66	8,230
Total	<u>287,541</u>	<u>100.00</u>	<u>8,409</u>	<u>265,335</u>	<u>100.00</u>	<u>8,409</u>

Individually significant accounts receivable referred to as individual accounts receivable with an amount over RMB5,000,000. The provision for bad debts has been made on an aging basis as no impairment of individually significant accounts receivable was found after the assessment.

#### (2) Aging Analysis

Item	2009.6.30			2008.12.31		
	Amount	Ratio %	Bad debts Provision	Amount	Ratio %	Bad debts Provision
Less than 1 year	242,631	84.38	659	227,916	78.90	659
1 to 2 years	10,490	3.65	228	5,646	8.48	228
2 to 3 years	4,739	1.65	494	15,495	10.75	494
Over 3 years	29,681	10.32	7,028	16,278	1.87	7,028
Total	<u>287,541</u>	<u>100.00</u>	<u>8,409</u>	<u>265,335</u>	<u>100.00</u>	<u>8,409</u>

#### (3) The provision system for bad debts can be seen above Notes 5.7.



- (4) In the ending balance, there is no account receivable due from shareholders who hold 5% or more of the Company's voting capital.
- (5) The balance of accounts receivable due from the top five debtors is RMB163,619,000 accounting for 56.90% of the total balance of accounts receivable.
- (6) The balance of accounts receivables due from the related parties is RMB120,061,000, accounting for 41.75% of the total balance of accounts receivable.
- (7) The ending balance of accounts receivable expressed in the foreign currency is as follows:

Item	2009.6.30			2008.12.31		
	Original Currency	Exchange Rate	Translated into RMB	Original Currency	Exchange Rate	Translated into RMB
USD	20,008	6.8319	136,695	15,904	6.8346	108,695
Total			<u>136,695</u>			<u>108,695</u>

## 2. Other Receivable

- (1) Risk Classification of Other Receivable

Item	Amount	2009.6.30		Amount	2008.12.31	
		Ratio %	Bad debts Provision		Ratio %	Bad debts Provision
Individually significant other receivable	6,196	18.15	6,196	6,196	19.76	6,196
Individually non-significant other receivable	27,942	81.85	672	25,156	80.24	672
Total	<u>34,138</u>	<u>100.00</u>	<u>6,868</u>	<u>31,352</u>	<u>100.00</u>	<u>6,868</u>

Individually significant other receivable referred to as individual other receivable with an amount over RMB5,000,000. Provision for bad debts has been made and there was impairment of RMB6,196,000. The provision for bad debts has been made on aging basis as no impairment of individually significant other receivable was found after the assessing.



## (2) Aging Analysis

Item	2009.6.30			2008.12.31		
	Amount	Ratio (%)	Bad debts Provision	Amount	Ratio (%)	Bad debts Provision
Less than 1 year	14,599	42.76	2	12,011	38.31	2
1 to 2 years	9,910	29.03	7	9,810	31.29	7
2 to 3 years	136	0.40	16	752	2.40	16
Over 3 years	9,493	27.81	6,843	8,779	28.00	6,843
Total	<u>34,138</u>	<u>100.00</u>	<u>6,868</u>	<u>31,352</u>	<u>100.00</u>	<u>6,868</u>

- (3) The provision system for bad debts can be seen above Notes 5.7.
- (4) The ending balance of other receivable includes output VAT for exporting before applying to customs. No bad debts provision is made on these items.
- (5) In the ending balance, there is no other receivable due from shareholders who hold 5% or more of the Company's voting capital.
- (6) The balance of other receivable due from the top five debtors is RMB17,144,000, accounting for 50.22% of the total balance of other receivable.
- (7) The balance of other receivable due from the related parties is RMB16,319,000 accounting for 47.80% of the total balance of other receivable.

## 3. Long-term Equity Investment

## (1) Long-term Equity Investment

Item	2009.6.30	2008.12.31
Accounted in cost method	220,284	176,284
Accounted in equity method	<u>26,904</u>	<u>25,631</u>
Total	<u>247,188</u>	<u>201,915</u>
Less: Impairment of Long-term equity investment	—	—
Net value of Long-term equity investment	<u>247,188</u>	<u>201,915</u>



(2) Accounted in Equity Method and Cost Method

Name of investee	Holding Ratio	Voting right ratio	Original Cost	Balance in 2008.12.31	Addition in this period	Deduction in this period	Balance in 2009.6.30	Dividends received in this period
Accounted in cost method								
1. Shandong Xinhua Pharmaceutical Trade Company Limited	98%	98%	47,529	47,529	—	—	47,529	—
2. Zibo Xinhua Pharmaceutical Design Institute Company Limited	90%	90%	1,800	1,800	—	—	1,800	—
3. Zibo Xinhua Drug Store Chain Company Limited	88%	88%	1,760	1,760	—	—	1,760	—
4. Shandong Xinhua Pharmaceutical (European) GmbH	76.90%	76.90%	4,597	4,597	—	—	4,597	—
5. Zibo Xinhua-Eastwest Pharmaceutical Company Limited	75%	75%	9,008	9,008	—	—	9,008	—
6. Sino-USA Zibo Xinhua-Perrigo Pharmaceutical Company Limited	50.10%	50.10%	24,877	24,877	—	—	24,877	2,004
7. Xinhua Pharmaceutical (Shouguang) Company Limited	100%	100%	130,713	86,713	44,000	—	130,713	—
Sub-total				<u>176,284</u>	<u>44,000</u>	<u>—</u>	<u>220,284</u>	<u>2,004</u>
Accounted in equity method								
1. Shandong Xinhua Longxin Chemical & Industrial Company Limited	40%	40%	10,000	9,843	570	—	10,413	—
2. Shandong Xinhua Changxing Chemical Equipment Company Limited	35%	35%	7,700	3,535	690	—	4,225	—
3. Shandong Zibo XinCat Pharmaceutical Company Limited	20%	20%	10,179	12,253	2,563	2,550	12,266	2,550
Sub-total				<u>25,631</u>	<u>3,823</u>	<u>2,550</u>	<u>26,904</u>	<u>2,550</u>
Total				<u>201,915</u>	<u>47,823</u>	<u>2,550</u>	<u>247,188</u>	<u>4,554</u>

(3) Impairment on Long-term Equity Investment

No provision for impairment is made and no evidence indicates any impairment of long-term equity investment at the end of the period.



#### 4. Operating Income and Cost

##### (1) Operating Income and Cost

Item	2009.1-6	2008.1-6
Income from main operation	764,669	796,857
Income from other operation	20,056	28,579
Sub-total	784,725	825,436
Sales to top 5 customers	138,540	163,819
Accounting of the total sales	18.12%	20.56%
Cost from main operation	601,120	687,074
Cost from other operation	25,105	29,097
Sub-total	<u>626,225</u>	<u>716,171</u>

##### (2) Income and Cost from Main Operation-Products Segment

Item	2009.1-6	2008.1-6
Income from main operation		
Bulk Pharmaceuticals	573,511	618,440
Including: Export sales	380,082	418,256
Preparations	191,157	178,301
Chemical and others	1	116
Total	<u>764,669</u>	<u>796,857</u>
Cost from main operation		
Bulk Pharmaceuticals	435,375	533,469
Including: Export sales	289,166	363,844
Preparations	165,744	153,489
Chemical and others	1	116
Total	<u>601,120</u>	<u>687,074</u>
Gross margin from main operation		
Bulk Pharmaceuticals	138,136	84,971
Including: Export sales	90,916	54,412
Preparations	25,413	24,812
Chemical and others	—	—
Total	<u>163,549</u>	<u>109,783</u>



**5. Investment Gain or Loss**

Sources of Investment income	2009.1-6	2008.1-6
Gain or loss from long-term equity accounting in beneficial method	3,823	556
Gain or loss from held-for-trade financial assets	2,249	651
Dividends from subsidiary company	2,004	—
Total	<u>8,076</u>	<u>1,207</u>

There is no significant restriction on the returns of investment income.

**10. RELATED PARTY RELATIONSHIP AND TRANSACTION****1) Related Party Relationship**

Detailed subsidiaries under a control relationship shall be seen in Notes 7. Business Combination and Consolidated Financial Statements.

**1. Related Parties under a control relationship**

Party Name	Organization	Related registration	Code of Main operations	Place of the Company	Relation with Nature	Legal Representative
Shandong Xinhua Pharmaceutical Group Company Limited	164132472	No. 14, East 1st Road, Zhangdian Dist., Zibo, Shandong Province.	Investment in the design of construction projects, property development and food and beverage, etc.	Parent company of the Company	State-owned	Guo Qin
Shandong Hualu Holding Group Company Limited	771039712	No. 1, Bangpeng Street, Jinan, Shandong Province.	Investment and management in fertilizer and petrochemicals, etc.	The ultimate holding company	State-owned	Li Tongdao

**2. Registered capital and changes of related parties under a control relationship**

Related Party Name	2008.12.31	Addition	Deduction	2009.6.30
Shandong Xinhua Pharmaceutical Group Company Limited	298,500	—	—	298,500
Shandong Hualu Holding Group Company Limited	800,000	—	—	800,000

**3. Share holdings and changes of related parties under a control relationship**

Related Party Name	Amount of shares		Ratio	
	2009.6.30	2008.12.31	2009.6.30	2008.12.31
Shandong Xinhua Pharmaceutical Group Company Limited	<u>163,259</u>	<u>163,259</u>	<u>35.70%</u>	<u>35.70%</u>



#### 4. Nature of related parties under no control relationships

Related Party Name	Relationship	Related Transactions with the Company
Shandong Xinhua Industry & Trade Company Limited	Under the common control of parent company	Sale of power and waste materials, and purchase of raw materials
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Under the common control of parent company	Purchase of materials
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Under the common control of parent company	Purchase of materials
Shandong Xinhua Longxin Chemical & Industrial Company Limited	Joint venture	Purchase of materials
Shandong Xinhua Changxing Chemical Equipment Company Limited	Joint venture	Sale of equipments, work-in-progress and technology
Shandong Zibo XinCat Pharmaceutical Company Limited	Under the common control of parent company and partially held by the Company	Sale of power and housing renting
Shandong Zibo Xinhua-DSM Pharmaceutical Company Limited	Partially held by parent company	Sale of power and Purchase of materials

## 2) Related Transactions

### 1. Pricing Policy

The Company sells products and purchases the materials to related parties at the market price.

### 2. Purchase of materials

Related Party Name		2009.1-6		2008.1-6	
		Amount	Rate (%)	Amount	Rate (%)
Shandong Xinhua Industry & Trade Company Limited	Raw materials and chemical reagent	1,917	0.63	2,420	0.56
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Raw materials	16,994	5.59	29,090	6.76
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Raw materials	4,159	1.37	14,418	3.35
Shandong Zibo XinCat Pharmaceutical Company Limited	Drugs	221	—	—	—
Shandong Zibo Xinhua-DSM Pharmaceutical Company Limited	Raw materials	19,620	6.46	22,522	5.24
Shandong Xinhua Longxin Chemical & Equipment Company Limited	Raw materials	1,363	0.45	5,441	1.27
Shandong Xinhua Changxing Chemical Equipment Company Limited	Daubed glass retorts	—	—	4	—
Total		<u>44,274</u>		<u>73,895</u>	



### 3. Sale of merchandise

Related Party Name	Transaction Contents	2009.1-6		2008.1-6	
		Amount	Rate (%)	Amount	Rate (%)
Shandong Xinhua Industry & Trade Company Limited	Sale of power and waste materials	858	—	1,589	—
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Sale of power and waste materials	1,575	—	1,676	—
Shandong Xinhua Bobang Chemical & Industrial Company Limited	Sale of power	—	—	—	—
Shandong Zibo XinCat Pharmaceutical Company Limited	Sale of power	712	4.97	783	6.25
Shandong Zibo Xinhua-DSM Pharmaceutical Company Limited	Sale of power	2,296	16.03	2,451	16.59
Total		<u>5,441</u>		<u>6,499</u>	

### 4. Guaranty secured

The Company entered a comprehensive credit contract of RMB120,000,000 with China Merchants Bank Qingdao Branch of High-Tech Industrial Development Zone for current capital loans, bank exchange bills, export bills, bills discount. The credit period is from 3 February 2009 to 2 February 2010. Shandong Xinhua Pharmaceutical Group Company Limited, the parent company, provided guaranty for the credit contract. As at 30 June 2009, the Company has received the amount of RMB 40,611,000 for issuing bank exchange bills.

The Company entered a facility contract of RMB50,000,000 with China Bank of Communication. The facility is available from 24 Oct 2008 to 23 Oct 2009. Shandong Xinhua Pharmaceutical Group Company Limited, the parent company, provided guaranty for the facility.

The Company entered two loan contracts with Bank of China Zibo Branch, the contracted amounts are RMB50,000,000 and RMB30,000,000 respectively, and the contract periods are from 4 January 2009 to 3 January 2010 and 20 May 2009 to 19 May 2010. Shandong Xinhua Pharmaceutical Group Company Limited, the parent company, provided guaranty for the above two loan contracts.

The Company entered a loan contract with Branch of Qingdao China Import & Export Bank a contracted amount of RMB80,000,000 and for a period from 4 Dec 2008 to 4 Dec 2009. Shandong Hualu Holding Group Company Limited, the ultimate shareholders, provided guarantee for the liabilities of the Company under the above borrowing contract.



## 5. Lease of Assets

### i. Lease-out assets

Name of related party	Transaction contents	2009.1-6	2008.1-6
Shandong Zibo XinCat Pharmaceutical Company Limited	Lease-out of house	132	—
Shandong Zibo Xinhua-DSM Pharmaceutical Company Limited	Lease-out of house	2	—
Total		<u>134</u>	<u>—</u>

### ii. Lease-in assets

Name of related party	Transaction contents	2009.1-6	2008.1-6
Shandong Xinhua Pharmaceutical group Company Limited	Lease-in of house	500	500

## 6. Other Transaction

### i. Trademark Using Fee

Name of Related Party	Transaction contents	2009.1-6	2008.1-6
Shandong Zibo Xinhua Pharmaceutical group Company Limited	Trademark using fee	1,100	1,100

Pursuant to the Trademark Licensee Agreement signed by the holding company and the Company on 7 December 1996, the Company was granted the exclusive right to use the trademark “Xinhua” (“Trademark”) by the holding company for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall remain at RMB1,100,000, until the agreement is terminated

### ii. Offering Service

Name of Related Party	Transaction contents	2009.1-6	2008.1-6
Shandong Zibo Xinhua-DSM Pharmaceutical Company Limited	Design	—	12
Shandong Xinhua Changxing Chemical Equipment Company Limited	Design	11	12
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	Design	—	12
Total		<u>11</u>	<u>36</u>

**3) Related Party Current Account Balances**

<b>Name of Related Party</b>	<b>2009.6.30</b>	<b>2008.12.31</b>
<b>Accounts receivable</b>		
Shandong Xinhua Industry & Trade Company Limited	<b>36,706</b>	36,714
Shandong Zibo XinCat Pharmaceutical Company Limited	<b>353</b>	2,718
<b>Advances to Suppliers</b>		
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	<b>12,382</b>	10,748
Shandong Xinhua Longxin Chemical & Industrial Company Limited	<b>740</b>	1,481
<b>Other Receivable</b>		
Shandong Xinhua Industry & Trade Company Limited	<b>8</b>	8
Shandong Zibo Xinhua-DSM Pharmaceutical Company Limited	<b>45</b>	—
<b>Accounts Payable</b>		
Shandong Xinhua Industry & Trade Company Limited	<b>920</b>	1,182
Shandong Xinhua Wanbo Chemical & Industrial Company Limited	<b>476</b>	660
Shandong Xinhua Bobang Chemical & Industrial Company Limited	<b>1,953</b>	1,585
Shandong Zibo Xinhua-DSM Pharmaceutical Company Limited	<b>—</b>	2,809
Shandong Xinhua Changxing Chemical Equipment Company Limited	<b>56</b>	76
Shandong Zibo XinCat Pharmaceutical Company Limited	<b>116</b>	116
<b>Other Payable</b>		
Shandong Xinhua Industry & Trade Company Limited	<b>2,617</b>	2,648
Shandong Zibo XinCat Pharmaceutical Company Limited	<b>—</b>	1
Shandong Xinhua Changxing Chemical Equipment Company Limited	<b>618</b>	1,784

**11. CONTINGENCIES**

The company has no significant contingencies besides the above to be disclosed on 30 June 2009.



## 12. COMMITMENT

### 1. Large-Sum Agreed-Upon Contractual Disbursements

Items	Contractual Amount	Amount Unpaid
Innovation Zone	115,148	96,479
L-380 Projects	8,021	1,354
BULUOFEN	27,072	9,987
Shouguang Zone	85,108	30,382
Others	5,154	723
Total	<u>240,503</u>	<u>138,925</u>

2. The Company has no other capital commitments signed except for the above-mentioned on 30 June 2009.

## 13. POST BALANCE SHEET DATE EVENTS

The Company has no significant subsequent events to be disclosed.

## 14. OTHER IMPORTANT EVENTS

The Company has no significant other events to be disclosed on 30 June 2009.

## 15. SUPPLEMENTARY INFORMATION

### 1) Non-Routine Profit or Loss

Item	2009.1-6	2008.1-6
(1) Profit or loss from disposal of non-current assets	(4,898)	455
(2) Government subsidies in the current profit or loss	483	—
(3) Gain or loss from treating held-for-tread financial assets & held-for-tread financial liabilities in fair value, excepting hedging	9,148	1,248
(4) Gain or loss from treating long-term equity investment	—	—
(5) Write back of provision for accounts receivable	—	1,234
(6) Non-operating income or cost except items above	(2,942)	(1,416)
Less: Income tax	252	492
Sub-total	1,539	1,029
Including: attributable to the parent company	1,486	1,071



2) **Rate of Return on Equity (ROE) and Earnings per Share (EPS)**

According to the requirements of “Rule 9 on the Information Disclosure and Presentation of Companies That Issue Securities to the Public - Calculation and Disclosure of Rate of Return on Equity and Earnings per Share” issued by China Securities Regulatory Commission, the fully diluted and weighted average rate of return on equity and earnings per share of the Company are as follows:

(1) 2009.1-6

Net in come in reporting period	ROE		EPS	
	Full diluted	Weighted average	Basic	Diluted
Net profit attributed to the parent company	2.57%	2.72%	0.09	0.09
Net profit attributed to the parent company after deductions of extraordinary gains or losses	2.47%	2.62%	0.08	0.08

(2) 2008.1-6

Item	ROE		EPS	
	Full diluted	Weighted average	Basic	Diluted
Net profit attributed to the parent company	1.37%	1.23%	0.04	0.04
Net profit attributed to the parent company after deductions of extraordinary gains or losses	1.30%	1.16%	0.04	0.04

3) **Statement of Provision for Impairment of Assets**

Item	2008.12.31	Additions		Deductions		2009.6.30
		Provision recognised in the period	Recovery of written-off bad debts	Reversion	Other transferring	
Provision for impairment of bad debts	18,934	—	43	—	—	18,977
Provision for impairment of inventories	9,584	—	—	—	—	9,584
Provision for impairment of available-for-sale financial assets	30,000	—	—	—	—	30,000
Total	58,518	—	43	—	—	58,561

16. **APPROVAL OF FINANCIAL STATEMENTS**

The Financial Statements have been approved to report on 24 July 2009 by the Board of Directors.



## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Revenue	3	1,179,184	1,151,004
Cost of sales		(959,486)	(987,305)
Gross profit		219,698	163,699
Other income	3	8,242	3,215
Selling and distribution costs	4	(83,741)	(66,547)
Administrative expenses	4	(82,409)	(57,150)
Other expenses	4	(8,296)	(15,766)
Finance costs		(7,541)	(2,126)
Share of results of associates		3,823	556
Profit before tax		49,776	25,881
Income tax expense	5	(8,701)	(7,995)
Profit for the period		<u>41,075</u>	<u>17,886</u>
Attributable to:			
Owners of the parent		39,115	16,471
Minority interests		1,960	1,415
		<u>41,075</u>	<u>17,886</u>
Earnings per share - basic	6	<u>RMB0.090</u>	<u>RMB0.036</u>
Interim dividend	7	<u>—</u>	<u>—</u>





## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Profit for the period	<u>41,075</u>	<u>17,886</u>
Exchange difference on translation of foreign operations	(7)	38
Net gain/(loss) on available-for-sale financial assets	88,415	(211,822)
Income tax	<u>(13,273)</u>	<u>31,773</u>
	75,142	(180,049)
Total comprehensive income (loss) for the period, net of tax	<u>116,210</u>	<u>(162,125)</u>
Attributable to:		
Owners of the parent	114,252	(163,549)
Minority interests	<u>1,958</u>	<u>1,424</u>
	<u>116,210</u>	<u>(162,125)</u>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>30 June 2009 RMB'000 (unaudited)</b>	31 December 2008 RMB'000 (audited)
<b>Non-current assets</b>			
Technical know-how	8	292	792
Property, plant and equipment	8	968,777	959,882
Construction in progress	8	113,785	88,206
Prepaid lease payments on land use rights	8	104,672	105,061
Interests in associates		26,860	25,632
Available-for-sale investments		183,182	94,767
Deferred tax asset		1,004	1,031
		<b>1,398,572</b>	<b>1,275,371</b>
<b>Current assets</b>			
Inventories		245,777	304,515
Trade and bills receivables	9	346,781	250,092
Prepaid lease payments on land use rights	8	3,024	4,146
Other receivables, deposits and prepayment		53,480	39,903
Amount due from immediate holding company		42,535	43,091
Amounts due from associates		1,093	1,482
Tax recoverable		—	2,700
Pledged bank deposits		65,397	54,457
Bank balances and cash		244,649	183,667
		<b>1,002,736</b>	<b>884,053</b>
<b>Current liabilities</b>			
Trade and bills payables	10	294,399	250,628
Other payables and accrued charges		144,196	111,190
Amount due to an associate		674	1,805
Tax payable		4,401	462
Derivative financial instruments		692	7,591
Short-term bank loans		279,064	284,474
		<b>723,426</b>	<b>656,150</b>
<b>Net current assets</b>		<b>279,310</b>	<b>227,903</b>
<b>Total assets less current liabilities</b>		<b>1,677,882</b>	<b>1,503,274</b>
<b>Non-current liability</b>			
Long-term bank loans		60,000	—
Deferred tax liability		17,108	2,994
		<b>77,108</b>	<b>2,994</b>
		<b>1,600,774</b>	<b>1,500,280</b>
<b>Equity attributable to owners of the parent</b>			
Share capital	11	457,313	457,313
Reserves		1,109,754	995,502
Proposed final dividend		—	13,719
		<b>1,567,067</b>	<b>1,466,534</b>
<b>Minority interests</b>		<b>33,707</b>	<b>33,746</b>
<b>Total equity</b>		<b>1,600,774</b>	<b>1,500,280</b>



# FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent												
	Share capital	Share premium	Capital reserve	Reserve funds	Available-		Other reserve	Exchange reserve	Retained earnings	Dividend reserve	Total	Minority interests	Total
					revaluation reserve	investment reserve							
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2009</b>	457,313	466,618	78,642	167,428	25,850	58,943	(359)	437	197,943	13,719	1,466,534	33,746	1,500,280
Profit for the period	—	—	—	—	—	—	—	—	39,115	—	39,115	1,960	41,075
Other comprehensive income (loss)	—	—	—	—	—	75,142	—	(5)	—	—	75,137	(2)	75,135
<b>Total comprehensive income</b>	457,313	466,618	78,642	167,428	25,850	134,085	(359)	432	237,058	13,719	1,580,786	35,704	1,616,490
2008 final dividend paid (note 7)	—	—	—	—	—	—	—	—	—	(13,719)	(13,719)	—	(13,719)
Dividend of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(1,997)	(1,997)
<b>At 30 June 2009 (unaudited)</b>	<b>457,313</b>	<b>466,618</b>	<b>78,642</b>	<b>167,428</b>	<b>25,850</b>	<b>134,085</b>	<b>(359)</b>	<b>432</b>	<b>237,058</b>	<b>—</b>	<b>1,567,067</b>	<b>33,707</b>	<b>1,600,774</b>
<b>As at 1 January 2008</b>	457,313	466,618	78,642	164,376	25,850	291,327	—	751	184,650	13,719	1,683,246	50,793	1,734,039
Profit for the period	—	—	—	—	—	—	—	—	16,471	—	16,471	1,415	17,886
Other comprehensive income (loss)	—	—	—	—	—	(180,049)	—	29	—	—	(180,020)	—	(180,011)
<b>Total comprehensive income</b>	457,313	466,618	78,642	164,376	25,850	111,278	—	780	201,121	13,719	1,519,697	52,217	1,571,914
2007 final dividend paid (note 7)	—	—	—	—	—	—	—	—	—	(13,719)	(13,719)	—	(13,719)
Acquisition of addition interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(13,613)	(13,613)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(8,871)	(8,871)
<b>At 30 June 2008 (unaudited)</b>	<b>457,313</b>	<b>466,618</b>	<b>78,642</b>	<b>164,376</b>	<b>25,850</b>	<b>111,278</b>	<b>—</b>	<b>780</b>	<b>201,121</b>	<b>—</b>	<b>1,505,978</b>	<b>29,733</b>	<b>1,535,711</b>



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June	
	2009 <i>RMB'000</i> (unaudited)	2008 <i>RMB'000</i> (unaudited)
Net cash from operating activities	131,802	85,477
Net cash used in investing activities	(102,153)	(125,823)
Net cash from financing activities	31,333	22,480
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	60,982	(17,866)
Cash and cash equivalents at 1 January	183,667	199,833
	<hr/>	<hr/>
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>244,649</b>	<b>181,967</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

The unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").



## 2. Principal accounting policies

The consolidated condensed interim financial information has been prepared on the historical cost basis except for property, plant and equipments and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the consolidated condensed interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except as described below.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretation ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2009.

HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations  
HKFRS 7 Financial Instruments: Disclosures  
HKFRS 8 Operating Segments  
HKAS 1 Revised Presentation of Financial Statements  
HKAS 23 Borrowing Costs (Revised)  
HKAS 32 Financial Instruments: Presentation and HKAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation  
HK(IFRIC) 13 Customer Loyalty Programmes  
HK(IFRIC) 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement  
HK(IFRIC) 16 Hedges of a Net Investment in a Foreign Operation  
Improvements to HKFRSs May 2008  
Improvements to HKFRSs April 2009

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs April 2009 <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>3</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRSs <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HK(IFRIC) — Int 9 and HKAS 39 (Amendments)	Embedded Derivatives <sup>4</sup>
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners <sup>3</sup>
HK(IFRIC) — Int 18	Transfers of Assets from Customers <sup>5</sup>

<sup>1</sup> Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>4</sup> Effective for annual periods ending on or after 30 June 2009

<sup>5</sup> Effective for transfers of assets from customers received on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009, HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.



### 3. Segment information

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

- Pharmaceutical business segment develops, produces and sells pharmaceutical products including bulk pharmaceutical, preparations (e.g. tablets and injections), chemicals and other products.
- Other operations segment manages the available-for-sale investment held by the Group.

No operating segments have been aggregated to form the above reportable operating segments.

#### Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2009 and 2008, respectively:

#### Six months ended 30 June 2009 (unaudited)

	Pharmaceutical business RMB'000	Other operations RMB'000	Adjustments and elimination RMB'000	Total RMB'000
<b>Revenue</b>	<u>1,185,177</u>	<u>2,249</u>	<u>—</u>	<u>1,187,426</u>
<b>Results</b>				
Segments profit before tax	<u>51,245</u>	<u>2,249</u>	<u><sup>a</sup>(3,718)</u>	<u>49,776</u>

a. The profit for each operating segment does not include finance costs RMB7,541,000 and share of results of associates RMB3,823,000.

#### Six months ended 30 June 2008 (unaudited)

	Pharmaceutical business RMB'000	Other operations RMB'000	Adjustments and elimination RMB'000	Total RMB'000
<b>Revenue</b>	<u>1,153,089</u>	<u>1,130</u>	<u>—</u>	<u>1,154,219</u>
<b>Results</b>				
Segments profit before tax	<u>39,879</u>	<u>(12,428)</u>	<u><sup>a</sup>(1,570)</u>	<u>25,881</u>

a. The profit for each operating segment does not include finance costs RMB2,126,000 and share of results of associates RMB556,000.



# FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

The following table presents segment assets of the Group's operating segments as at 30 June 2009 and 31 December 2008:

Segment assets	Pharmaceutical	Other	Adjustments	Total
	business	operations	and elimination	
	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2009	<u>1,880,216</u>	<u>183,182</u>	<u><sup>a</sup>337,910</u>	<u>2,401,308</u>
At 31 December 2008	<u>1,797,170</u>	<u>94,767</u>	<u><sup>b</sup>267,487</u>	<u>2,159,424</u>

a. Segment assets does not include deferred tax RMB1,004,000, interests in associates RMB26,860,000, pledged bank deposits RMB65,397,000 and bank balance and cash RMB244,649,000.

b. Segment assets does not include deferred tax RMB1,031,000, interests in associates RMB25,632,000, tax recoverable 2,700,000, pledged bank deposits RMB54,457,000 and bank balance and cash RMB183,667,000.

## 4. Profits before tax

Profit before tax is arrived at after charging :

	Six months ended	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on borrowings	<u>7,541</u>	<u>2,126</u>
Amortisation of prepaid lease payments on land use rights	1,511	1,553
Amortisation of technical know-how	500	564
Depreciation	58,501	54,250
Staff costs (excluding emoluments of directors and supervisors)	68,492	84,283
Contributions to retirement scheme for the staff	20,168	12,627
Dividends and interest income	2,716	1,585
Loss on disposal of property, plant and equipment	<u>1,424</u>	<u>167</u>



## 5. Income tax expense

The major components of income tax expense in the condensed income statement are:

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
<b>Current income tax</b>		
Current income tax charge	7,834	6,576
<b>Deferred income tax</b>		
Relating to origination and reversal of temporary differences	<u>867</u>	<u>1,419</u>
<b>Income tax expense</b>	<u><b>8,701</b></u>	<u><b>7,995</b></u>

- (1) PRC enterprise income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.
- (2) No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for the six months ended 30 June 2009 and 2008.

## 6. EARNINGS PER SHARE — BASIC

The calculation of the basic earnings per share is based on the Group's profit attributable to the owners of the parent of RMB39,115,000 (2008: RMB16,471,000) and based on the weighted average of 457,312,830 shares (2008: 457,312,830 shares) in issue during the period.

There was no dilution effect on the basic earnings per share for the six months ended 30 June 2009 and 2008 as there were no dilutive shares outstanding during the six months ended 30 June 2009 and 2008.

## 7. DIVIDEND

- (1) The board of the directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).
- (2) Dividends attributable to the previous financial year, approved and paid during the interim period.

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Final dividend in respect of the financial year ended 31 December 2008, approved and paid during the following interim period, of RMB0.03 per share (year ended 31 December 2007: RMB0.03 per share)	<u><b>13,719</b></u>	<u><b>13,719</b></u>





## 8. Capital Expenditures

	Prepaid lease payments on land use rights RMB'000	Technical know-how RMB'000	Property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Net carrying values at 1 January 2009	109,207	792	959,882	88,206	1,158,087
Additions	—	—	22,345	74,455	96,800
Disposals	—	—	(1,547)	(2,278)	(3,825)
Transfers	—	—	46,598	(46,598)	—
Depreciation and amortisation	(1,511)	(500)	(58,501)	—	(60,512)
Net carrying values at 30 June 2009 (unaudited)	<u>107,696</u>	<u>292</u>	<u>968,777</u>	<u>113,785</u>	<u>1,190,550</u>
Representing:					
Non-current portion	<u>104,672</u>	<u>292</u>	<u>968,777</u>	<u>113,785</u>	<u>1,187,526</u>
Current portion	<u>3,024</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,024</u>
Net carrying values at 1 January 2008	93,843	1,922	857,040	71,180	1,023,985
Additions	6,237	—	20,005	79,697	105,939
Disposals	—	—	(15,840)	(4,327)	(20,167)
Transfers	—	—	3,342	(3,342)	—
Depreciation and amortisation	(1,553)	(564)	(54,250)	—	(56,367)
Net carrying values at 30 June 2008 (unaudited)	<u>98,527</u>	<u>1,358</u>	<u>810,297</u>	<u>143,208</u>	<u>1,053,390</u>
Representing:					
Non-current portion	<u>95,421</u>	<u>1,358</u>	<u>810,297</u>	<u>143,208</u>	<u>1,050,284</u>
Current portion	<u>3,106</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,106</u>



## 9. Trade and bills receivables

Included in the trade and bills receivables are debtors and bills receivables, net of allowance for bad debt and doubtful debts, with the following ageing analysis:

	<b>30 June 2009 RMB'000 (unaudited)</b>	31 December 2008 RMB'000 (audited)
Within one year	342,888	246,965
More than one year but less than two years	3,310	2,264
More than two years but less than three years	—	588
Over three years	583	275
	<b><u>346,781</u></b>	<b><u>250,092</u></b>

The Group's turnover from export sales is on letter of credit or documents against payment. The credit period is agreed upon in the sales contract. Except for some particular customers where payment in advance is normally required, the Group allows an average credit period of 30 days to its local trade customers and 90 days for local hospital customers.

## 10. Trade and bills payables

Included in trade and bills payables are creditors and bill payables with the following ageing analysis:

	<b>30 June 2009 RMB'000 (unaudited)</b>	31 December 2008 RMB'000 (audited)
Within one year	286,538	242,426
More than one year but less than two years	1,746	2,151
More than two years but less than three years	1,703	966
Over three years	4,412	5,085
	<b><u>294,399</u></b>	<b><u>250,628</u></b>

**11. SHARE CAPITAL**

Issued and fully paid	30 June 2009		31 December 2008	
	Number of shares '000 (unaudited)	RMB'000 (unaudited)	Number of shares '000 (audited)	RMB'000 (audited)
<b>State-owned legal person shares of RMB1 each</b>				
At the beginning and the end of the period/year	163,259	163,259	163,259	163,259
<b>PRC legal person shares of RMB1 each</b>				
At the beginning and the end of the period/year	24,527	24,527	24,527	24,527
<b>Senior officers' shares of RMB1 each</b>				
At the beginning of the period/year	23	23	31	31
Decrease as a result of shares sold from senior management	—	—	(8)	(8)
At the end of period/year	23	23	23	23
<b>A shares of RMB1 each</b>				
At the beginning of the period/year	119,504	119,504	119,496	119,496
Transferred from promoter and senior management	—	—	8	8
At the end of period/year	119,504	119,504	119,504	119,504
<b>H shares of RMB1 each</b>				
At the beginning and the end of the period/year	150,000	150,000	150,000	150,000
	<b>457,313</b>	<b>457,313</b>	<b>457,313</b>	<b>457,313</b>

**12. Capital commitments**

- (1) At 30 June 2009, the Group had the following capital commitments principally related to construction in progress and purchase of property, plant and equipment in respect of buildings and production facilities which were not provided for in the unaudited condensed consolidated financial statements:

	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
Contracted but not provided for	138,925	78,943
Authorised but not contracted for	167,435	167,435
	<b>306,360</b>	<b>246,378</b>



### 13. Related party transaction

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
SXPGC and its subsidiaries		
— Sale of water, electricity and steam and raw materials	5,441	6,499
— Purchase of raw materials	42,690	68,450
— Design income received	—	24
— Rental income	2	—
— Rental expense	500	500
— Purchase of land and building	—	9,500
— Payment of annual trademark license fee (Note)	1,100	1,100
Associates:		
— Design income received	11	12
— Purchase of raw materials	1,584	5,445
— Rental income	132	—
Minority shareholder:		
— Sale of bulk pharmaceuticals and chemical materials	71,620	108,346
— Purchase of chemical materials, water, electricity and stream	—	16,621
	<u>71,620</u>	<u>166,621</u>

*Note:*

On 7 December 1996, the Group was granted the exclusive right to use the trademark "Xinhua" ("Trademark") by SXPGC for its existing and future products in and outside the PRC at an initial annual fee of RMB600,000 increasing at the rate of an extra RMB100,000 per year until the annual fee reaches the cap amount of RMB1,100,000, which shall stay as such until the agreement is terminated. The terms of the agreement shall continue to have effect during the validity period of the Trademark, being 28 February 2013, subject to further renewal of the registration of the Trademark. During the period ended 30 June 2009, the annual fee paid by the Group was RMB1,100,000 (2008 : RMB1,100,000).

### 14. Contingent liabilities

At 30 June 2009, the Group did not have contingent liabilities.

### 15. Events after balance sheet date

Up to the date of this report, the Group has no significant events after balance sheet date.



### (1) DOCUMENTS FOR INSPECTION

- (1) The original copy of the Company's 2009 Interim Report signed by the Chairman of the Board.
- (2) Financial statements for the six months ended 30 June 2009 signed by the Chairman of the Board, the financial controller and the chief of accounting department of the Company.

### (2) PLACE FOR INSPECTION

Office of the Secretary to the Board of the Company.

As at the date of this Report, the Board consists of the following executive directors:

Ms. Guo Qin;  
Mr. Ren Fulong;  
Mr. Zhao Songguo;

the following non-executive directors:

Mr. Liu Zhenwen;  
Mr. Li Tianzhong;  
Mr. Zhao Bin;

and the following independent non-executive directors:

Mr. Zhu Baoquan;  
Mr. Sun Minggao;  
Mr. Kwong Chi Kit, Victor.

**Shandong Xinhua Pharmaceutical Company Limited**

24 July 2009